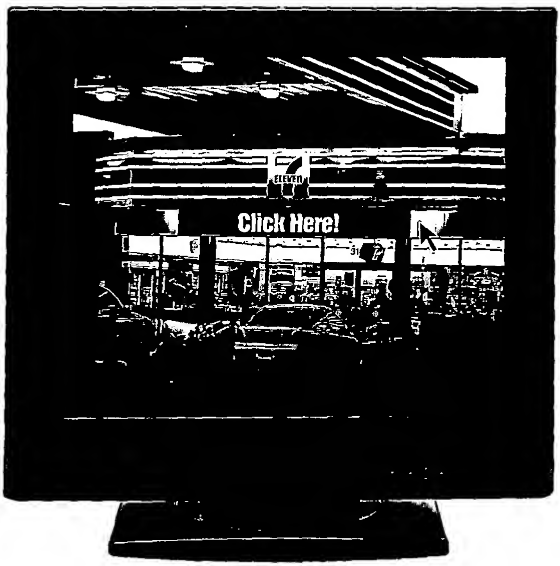
Convenience Retailing Reinvented Fresh Daily



Innovation, People, Technology...Worldwide

The *continual introduction* of products that are first, best or available only at 7-Eleven gives customers fresh reasons to shop our stores.

7-Eleven is known for its proprietary *products*. Bakery Stix™, tasty Café Cooler™ *varieties and new varieties* of grill items were introduced in 1999, joining a line-up of customer favorites that *can be* found only at 7-Eleven.

7-Eleven stores' use of *technology* to improve item-by-item inventory management is unmatched and enables stores to stay *in stock* on top-selling items.

The undisputed leader in the industry, 7-Eleven has made a commitment to provide each and every customer with five fundamentals of convenience retailing: selection, quality, cleanliness, service and value.

New product development, daily deliveries to stores, the Retail Information System and aggressive new store development will enable 7-Eleven to meet and exceed the needs of our customers... and attract new ones.

The 7-Eleven store layout means fast and easy access to an average of 2,500 products — 24 hours a day. Top-selling items like coffee and frozen beverages are situated for maximum visibility and customer convenience.

6:00 a.m.

Store operator analyzes historical data to forecast next day's sales.

10:00 a.m.

Stores place fresh food orders, which are consolidated at the corporate office.

12:00 Noon

Suppliers begin to receive orders.

3:00 p.m.

CDC begins to receive products from suppliers and sort by store.

10:30 p.m. - 5:00 a.m.

CDC delivers sorted product to stores via planned delivery route.

6:00 a.m.

Fresh products ready for consumption by eager customers, all day, everyday.

Fresh Daily: A One-of-a Kind Distribution System.

Corporate Mission

7-Eleven, Inc. strives to maximize the long-term market value of shareholder equity. Our heritage is 7-Eleven. Its profitable growth and increasing dominance in convenience retailing will remain the core of our existence. We will be successful to the degree that we fulfill the needs of our customers. "What they want, when and where they want it" in a manner that provides added value, engenders loyalty and promotes a lasting relationship. To ensure 7-Eleven's continued excellence, we must retain the flexibility to anticipate opportunities and to master all forms of competitive challenge.

Our most important resource is people. 7-Eleven excels because of the quality, motivation and loyalty of every member of the 7-Eleven family. We are committed to innovation through participative involvement, and to fostering an environment of trust, respect and shared values.

As a responsible corporate citizen, 7-Eleven will conduct its business in an ethical manner with the highest integrity, while contributing to the quality of life in the communities it serves.

The ultimate measure of 7-Eleven's success is the optimal utilization of our collective resources and the perpetuation of a culture that is distinguished for its clarity of purpose, emphasis on individual responsibility and standards of excellence.

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Why 7-Eleven Leads the Industry It Founded

Our founders pioneered the concept of convenience in 1927 when an employee began selling basic groceries on Sunday because other businesses were closed. This innovation changed customers' expectations from merely having products available to requiring that they also be convenient. From the simple idea of giving people "what they want, when and where they want it," the convenience industry was born.

7-Eleven has undergone a tremendous amount of change in culture and performance since the early '90s such that today, the Company is truly not the same. From the look and feel of stores to each and every item to customer service, we have set out to revolutionize, once again, an industry we created. Careful planning and execution have allowed us to develop an infrastructure that better supports the changing needs of customers day in, day out.

7-Eleven is again raising expectations as new information systems enable store managers and franchisees to anticipate customers' needs and serve them better. Each day, a network of commissaries, bakeries and distribution centers provides 7-Eleven stores with an unmatched selection of the freshest products, yielding true differentiation. This unique, proprietary infrastructure creates a strategic advantage over competitors and will enable 7-Eleven to produce sustainable and profitable growth over the long term. 7-Eleven is positioned to leverage this distribution infrastructure along with physical store locations, the web-enabled financial services kiosks and the 7-Eleven web site to capture a unique opportunity in e-commerce. Serving as the convenient solution for delivery and pick-up of items purchased online, new and existing customers will have the ability to pick up or return items 24 hours a day, 365 days a year.

As we approach our 75th anniversary, 7-Eleven enters the new millennium with the foundation and strategies in place to focus on our business, capitalize on new opportunities and continue to lead the $160 billion convenience industry.

7-ELEVEN, INC. AND SUBSIDIARIES

Financial Highlights

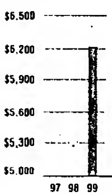
(Dollars in Millions, Except Per-Share Data)	1999	Change vs. Prior Year	1998	Change vs. Prior Year	1997
	Years Ended December 31				
For the Year:					
Merchandise Sales	$ 6,216.1	11.5%	$ 5,573.6	7.6%	$ 5,181.8
Gasoline Sales	2,035.6	20.9%	1,684.2	-5.9%	1,789.4
Net Sales	8,251.7	13.7%	7,257.8	4.1%	6,971.2
Other Income	97.8	6.3%	92.0	2.9%	89.4
Total Revenues	8,349.5	13.6%	7,349.8	4.1%	7,060.6
Gasoline Gallons (in millions)	1,686.6	9.3%	1,543.0	9.8%	1,405.7
Net Earnings[(1)(2)]	83.1	12.3%	74.0	5.7%	70.0
Net Earnings Per Common Share:[(1)(2)]					
Basic	0.20		0.18		0.17
Diluted	0.18		0.17		0.16
Capital Expenditures	428.8		380.9		232.5
Interest Expense, Net[(2)]	102.2		91.3		90.1
U.S. Same-Store Merchandise Sales Increase	9.1%		5.7%		1.5%
At Year-End:					
Common Shares Outstanding (in thousands)	409,999		409,923		409,923
Number of Stores Operated or Franchised by 7-Eleven in U.S. and Canada	5,703	77	5,626	203	5,423
Number of Stores Operated by Area Licensees or Affiliates in U.S. and Overseas	13,775	1,163	12,612	931	11,681
Total 7-Eleven Stores Worldwide	19,478	1,240	18,238	1,134	17,104
Total Sales in 7-Eleven Stores Worldwide	$26,952.7	12.2%	$24,014.1	0.2%	$23,973.9
Number of Employees (Full-time and Part-time)	33,687		32,368		30,323
Shareholders' Equity (Deficit)[(2)]	$ (559.6)	82.6	$ (642.2)	79.3	$ (721.5)
Total Assets[(3)]	2,685.7	209.6	2,476.1	337.5	2,138.6

(1) Net Earnings for 1999 and 1998 include an extraordinary gain of $4.3 million and $23.3 million, respectively, on debt redemptions (see Note 9 of the Consolidated Financial Statements.)

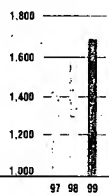
(2) The Company is required to prepare its financial statements since completing the 1991 Restructuring in accordance with Statement of Financial Accounting Standards No. 15 (SFAS No. 15). Under SFAS No. 15, the liability for the Company's restructured public debt as recorded on the balance sheet includes all future undiscounted cash payments, both principal and interest. For that reason, no interest expense will be recognized over the life of these securities, although the interest payments are tax deductible. The liability is reduced by the amount of the interest payments at the time they are disbursed. Those cash interest payments, which are paid semiannually, totaled $18 million, $21 million and $22 million in 1999, 1998 and 1997, respectively. During 1999 and 1998, $19 million and $46 million, respectively, in principal of the restructured debt was refinanced, thus reducing the restructured public debt's cash interest payments to $17.7 million annually beginning in 2000 through 2003, after which, payments will decline due to bond maturities.

(3) Total Assets for the years 1998 and 1997 have been reclassified to conform to the current-year presentation.

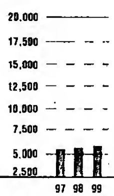
Merchandise Sales
Dollars in Millions



Gasoline Gallons
Gallons in Millions

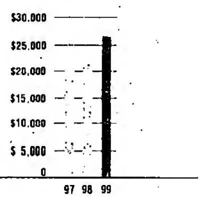


Global Store Count



7-Eleven — North America
Area Licensees

Global Sales
Dollars in Millions



To Our Shareholders:

As we enter the new century, 7-Eleven is committed to the use of technology, which we are integrating into almost every aspect of our business. This commitment is unmatched in the convenience industry. Early in the fourth quarter, we completed the installation of our proprietary Retail Information System (RIS), which is already changing the way we conduct business and providing a meaningful impact to store operations.

7-Eleven has undergone a tremendous change over recent years, and as we continue to become a stronger retailer, the Company is positioned to deliver sustainable, profitable long-term growth. Throughout this Annual Report you will see examples of how and why our strategies and infrastructure are working to improve operations, foster change and accelerate growth.

We are setting a new standard for convenience stores — an industry our founders pioneered in 1927— by providing customers with the daily delivery of high quality, fresh items in a clean, safe and friendly environment. This standard is supported by an infrastructure consisting of daily delivery, merchandising initiatives, RIS and new store development. This foundation allows 7-Eleven to better service customers and gives us a strong competitive edge.

Using Information to Our Advantage

At the core of our evolution is the RIS, which is the central nervous system of our business. This state-of-the-art system provides timely and accurate sales data to enable store operators to determine which items are selling or not and those with high sales potential. Store operators can then use this information to make better forecasting and ordering decisions. To fully utilize the tools this system provides, we must plan, analyze results and continuously make changes to improve the merchandising mix. RIS allows our store operators to do that by translating information into a custom merchandising mix that best fits the demographics of each store's customers.

Fresh Products Delivered Daily to the Stores

To satisfy the changing needs of customers and meet the increased demand for convenience and changing lifestyles, 7-Eleven began making daily delivery of selected items through Combined Distribution Centers (CDCs) in 1994. These centers, which are owned and operated by third-party partners, provide a number of benefits: stores receive delivery of items 365 days a year; deliveries occur during off-peak hours each night; the number of deliveries is reduced and distribution costs can be lowered. These translate into value, freshness, lower cost, wider selection, more convenient customer parking and improved customer service at the stores during peak traffic times. This year we added more than 400 stores to our daily delivery network and expect to add another 800 in the coming year.

Continual Introduction of New Products is a Key Strength

Customer preferences and buying trends are changing rapidly, and we are committed to continually introducing new products that are first, best or available only at 7-Eleven. During 1999, an average of 40 new products were available each week to our stores. Many of these products are not typically offered in convenience stores, like fresh foods, international wines and a number of other proprietary products. Last summer we introduced Früt Cooler™, a self-serve smoothie, and Bakery Stix™ by Kraft, a complement to our already popular grill items. In the fall we launched Top Hits (a CD and cassette "single" program similar to 45 records) and a line of health and nutritional items, and we extended the popular Bakery Stix™ line to include breakfast varieties.

Consumers today are eating on the go more and more. The growing trends of home meal replacement and dashboard dining are natural opportunities for 7-Eleven. Working with third-party partners who are food commissary and bakery experts, we now provide approximately 3,700 stores with a variety of fresh breakfast and lunch or dinner sandwiches, salads and bakery products 365 days a year. We believe that 7-Eleven can become a destination of choice for the ever-increasing number of customers looking for a fresh, high quality meal any time of day. Our commitment to fresh foods will continue to set us apart from competitors.

Store Development Creates Growth Opportunities

The development of new stores continues to be an important part of our growth strategy. During 1999 we opened 165 stores in existing markets, which allows us to maximize distribution efficiencies by increasing the number of stores serviced by the CDCs. New 7-Eleven stores continue to exceed our expectations, averaging higher merchandise and gasoline sales in the second year of operation than existing stores. We will continue to grow our store base with the addition of an estimated 200 stores in North America for each of the next several years. In addition to domestic growth, we will continue to increase our presence worldwide and open the 20,000th 7-Eleven store around midyear in 2000.

Improving Results

This past year we continued to see the positive impact of our strategies and initiatives on operations. For 1999 total revenues increased by $1 billion over 1998 to $8.35 billion. U.S. same-store merchandise sales increased 9.1 percent for 1999, on top of a 5.7 percent increase in 1998, and monthly merchandise gross profit per store increased almost 9 percent in 1999 compared to 1998. EBITDA increased to $435 million, and net earnings increased to $83.1 million, or $0.18 per share.

A Global Brand in the Neighborhood

7-Eleven is among the most recognized brands in many countries around the globe. With 19,500 stores worldwide that generated total sales of $27 billion in 1999, 7-Eleven can pursue opportunities to leverage our buying power to capture economies of scale and introduce proprietary products with international appeal. One such opportunity is our international wine program, whereby we joined with several area licensees to buy wine for a greater number of stores. This level of purchasing power and the resulting increase in volume provides stores with the opportunity to purchase items at a lower cost and in a quantity that best meets the needs of their customers.

Each 7-Eleven store is a part of its own neighborhood, representing our Company's determination to give back to the community in meaningful ways. During 1999 franchisees, employees and 7-Eleven made product donations to food banks, provided educational and reading grants in the communities we serve and supported numerous worthy groups and organizations on a national and local level.

An Element of Convenience for E-Commerce

7-Eleven is well positioned to capitalize on the opportunity e-commerce presents. In January 2000 we announced a strategic alliance with American Express to install interactive kiosks in the Dallas/Fort Worth stores. These kiosks will be web-enabled and initially provide customers with access to money orders, wire transfers and check-cashing services in a self-service environment. Later this year, customers will have access to a wide range of online products and services, like books, music and videos. 7-Eleven already has in place a solution to the biggest challenge for e-commerce companies — a distribution infrastructure, which allows us to quickly establish a presence in this exciting new business without incurring the significant costs associated with building such an infrastructure. Today, daily distribution is a key

element of our initiatives and a major component of our competitive advantage. Leveraging this infrastructure, the physical store locations and the web-enabled kiosks establishes a platform to provide Internet shoppers with convenience that does not exist today in the virtual world. Customers will be able to order an item from the kiosk, the 7-Eleven web site or their office or home and pick up the item within one or two days at the time most convenient for them — hassle free. No other company is positioned to offer this convenient alternative to home delivery.

Recapitalization

On March 1, 2000, we announced the first steps in our recapitalization plans. Giving us a very strong vote of confidence, our majority shareholder IYG Holding Company invested an additional $540 million into 7-Eleven in exchange for 113.7 million shares of stock, which equates to an issue price of $4.75 per share and represents an 83 percent premium to the closing stock price on February 29, 2000. This investment is important for several reasons: it allows us to significantly reduce debt and interest expense; provides flexibility to accelerate new store growth; facilitates the rollout of our e-commerce strategy and allows management to focus on operations as opposed to capital needs. We also announced plans for a reverse stock split which will be subject to vote at the Annual Shareholders Meeting on April 26, 2000. The reverse stock split combined with the recapitalization better positions 7-Eleven as an attractive investment to a much broader group of investors and sets the stage for further improvement to our capital structure.

The Year Ahead

Meeting and exceeding customers' expectations by executing our plans and leveraging our infrastructure will continue to set 7-Eleven apart. Now that RIS and the infrastructure are in place, we can continue to take advantage of opportunities as they arise. As many of you know, we have been reinvesting significantly into our business to implement our strategies. Beginning in 2000, we will turn our attention to focusing on improving asset return through higher sales and operating income at stores. We believe this, along with a leveling off of incremental expenses associated with our strategies, will begin to positively impact our bottom line later in 2000.

In closing we want to thank franchisees, employees and area licensees for their hard work and dedication in providing selection, quality, cleanliness, service and value — the five 7-Eleven fundamentals of convenience retailing— to customers each and every day. We also want to thank our third-party partners and our shareholders for their commitment and support as 7-Eleven has undergone significant change over the last several years.

Clark Matthews

Clark J. Matthews, II
President and Chief Executive Officer

James W. Keyes

James W. Keyes
Executive Vice President and Chief Operating Officer

After I step down following the Annual Shareholders Meeting in April, Jim will assume the role of president and chief executive officer. I believe, as does our board of directors, that Jim is well-positioned to lead 7-Eleven into the bright future ahead. I could not be more delighted than to turn over the leadership of this outstanding organization to Jim.

Clark

Früt Cooler™ was introduced in June 1999 as a complement to the successful Café Cooler™ and is among the first smoothie products sold in a self-serve environment.

RIS
story

David Podeschi
Vice President,
Foods/Non-Foods Merchandising
Dallas, Texas
Celebrating 20 years with 7-Eleven

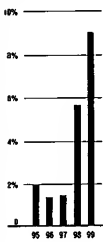
Using the Retail Information System (RIS) for over two years, David has integrated the benefits of RIS into many aspects of day-to-day category management. David believes the most significant benefit of RIS is the creation of a product supply chain that is based on customer demand, resulting from the use of historical sales information to continuously improve the merchandise mix and the capability to enhance store ordering.

Using data from RIS enables David and his team to identify trends quickly and make changes to the product assortment, ensuring that top-selling items and those with high potential will be in stock, ready for customers. Using item-specific data, the merchandising department can work with suppliers to get products to 7-Eleven stores that capture sales momentum created by emerging trends, like the recent introduction of branded and licensed toys. Recognizing the opportunity early in the product life cycle, then testing the new items in a group of stores, the merchandising department could quickly verify the test results using RIS sales data and refine the toy category before the nationwide roll-out.

David believes the use of RIS greatly increases the efficiencies of the merchandise mix, ensuring that top sellers are in all stores and that high potential items have greater visibility in stores.

With pay-at-the-pump convenience and 24-hour availability, 7-Eleven makes it easy for customers to get gasoline for their car along with a Big Gulp® for themselves. Gasoline represents 25 percent of total 7-Eleven sales.

Same-Store Sales
Percent Increase



Meeting and exceeding the needs of existing customers and attracting new customers is a corporate commitment. At the heart of this commitment today, as in 1927, are our products. 7-Eleven has created an infrastructure that is unmatched by competitors and provides customers with access to high quality, fairly priced products in a clean, safe environment. The capability to continually introduce new merchandise is a critical component of our competitive advantage.

Recognizing, even anticipating, rapidly changing trends and quickly getting new products into 7-Eleven stores ensures customers will find what they want when they walk through the door. Our strategy goes beyond in-store execution as we work to constantly improve product quality, availability and cost... making the selection the best it can be.

In addition to selection, 7-Eleven stores' "first, best or only" proprietary products are another important element of its competitive position. During 1999 7-Eleven began to capitalize on team merchandising opportunities with key vendors, combining complementary resources to develop and introduce new, distinctive proprietary products. Most notably during this year, 7-Eleven partnered with Kraft Foods to develop and introduce Bakery Stix™ into our stores. This new roller grill product, a stuffed bread stick available in three varieties of filling for anytime dining and in two breakfast varieties, represents the ultimate portable food, providing customers with an easy, delicious, no-mess snack or meal. 7-Eleven, the store that practically invented "dashboard dining," continues to break new ground in tasty, portable food.

As the 7-Eleven name becomes synonymous with "fresh," perhaps the ultimate illustration of our ability to meet customer expectation is in the Fresh Food program, which continues to evolve and set the standard in the industry. Again our infrastructure provides the key to success: Today more than 3,700 stores receive daily delivery of fresh sandwiches, fruit and bakery items through our Combined Distribution Centers (CDC). Arriving at the store just prior to the morning rush, a variety of fresh food is ready for customers throughout the day. World Ovens® bakery products and Deli Central sandwiches are prepared by our third-party partners whose facilities are strategically located near the CDCs. These operators are experts in the preparation of food products, with the highest standards of cleanliness, safety and quality. Deli Central facilities are operated under USDA guidelines. Our customers can be confident they are getting a top quality, fresh product. And, because facilities are regionalized, new products can be adapted to the tastes of customers in specific areas of the country.

From Top Hits CD singles to Pokémon trading cards to prepaid telecommunications services to international wines and more, we are strategically adding products that appeal to a much broader base of customers. This continual, strategic introduction of new merchandise meets our customers' expectations of "fresh" and makes an important contribution to increased sales. During 1999, several categories posted significant growth over 1998: prepaid telecommunications up 85 percent; candy and cards up 18 percent and wine up 16 percent.

Products that are "first, best or available only at 7-Eleven," a strong competitive advantage.

7-Eleven has made a solid commitment to becoming a better retailer through exceptional merchandising. Our merchandising department is constantly evaluating cultural trends and consumers' purchasing patterns both nationally and regionally to ensure we are on the leading edge of product development and introduction. We will continue to partner with suppliers to introduce fresh, innovative, proprietary products like Flavor Splash by Pepsi for added zest to fountain drinks, Heaven Sent™ pantyhose in a conveniently sized container and Met-Rx Defense and Energy drinks.

Fresh Daily:
A merchandising strategy that gives our customers what they want, when and where they want it.

Our proprietary Bakery Stix™, which was codeveloped with Kraft Foods and introduced in July 1999, is popular with customers who want an easy-to-eat, portable snack or meal any time of day.

RIS story

Manuel (Manny) Vejo
Field Consultant
Miami, Florida
Celebrating 32 years with 7-Eleven

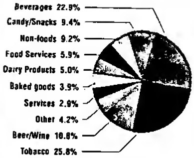
As a field consultant responsible for eight stores in Miami, Manny has used RIS for two years and knows the value of the system, helping stores in his market identify sales opportunities and better manage inventory. Manny views the ability to make faster, more accurate decisions to improve the merchandise mix and better manage write-offs as critical to the continued success of 7-Eleven stores.

Manny uses the day-part sales data provided by RIS to analyze fresh food product sales in two-hour increments, and then works with store managers to improve ordering and merchandise availability, which leads to higher sales. Manny also sees an opportunity to ensure the eight stores are carrying the top selling items.

In particular, one store was selling three units per day of fresh sandwiches. Comparing data from this store to that from others in the division and the market, Manny realized the store could boost fresh food sales and convinced the manager to increase the daily order. Within three weeks, the number of fresh sandwiches sold each day grew fivefold and write-offs were reduced.

Knowing exactly which items are selling, an improved merchandise mix and new item introductions have contributed to a 12 percent increase in merchandise sales in 1999 for Manny's eight stores.

Merchandise Sales by Category



Slurpee® is an American beverage icon and a favorite with kids of all ages. 7-Eleven introduced the Slurpee® beverage in 1968 and sells more than half a million of the cool treats each day. The Slurpee Splitzo® and Strata® cups encourage mixing of flavors and make this great product even better, and more fun!

Technology is changing the way businesses work, making them smarter, faster and more profitable. Our proprietary Retail Information System (RIS) is changing 7-Eleven at the speed of technology, empowering our stores with current, relevant sales information that directly impacts the bottom line. Our investment in this technology reflects our commitment to utilize information to improve our business.

RIS is now in all U.S. stores and will be in Canadian stores in 2001. This powerful system collects and provides sales data to help the store operator make more informed merchandising and ordering decisions.

Since customers tend to visit a 7-Eleven to pick up specific items, being in-stock on those items is crucial to building customer loyalty and improving sales. Rapidly changing consumer tastes have made trends difficult to predict without the right tools. The historical sales data captured by point-of-sale scanning at the register enables the store operator to recognize buying trends as they begin, eliminating the guesswork and providing a reliable statistical basis for inventory management and forecasting. By understanding other factors that affect customer purchases, including weather, holidays and local events, stores can improve ordering to make sure they have enough inventory to meet customer demand. Combined with item-by-item sales information, store operators can anticipate, react, evaluate and make changes to product categories to boost sales and improve inventory turns.

Deleting slow-moving items is equally important. Armed with sales information, store operators can easily and quickly identify items that are experiencing a slow-down in sales or are not moving at all. RIS allows for easy deletion of items from the product mix to make way for items with high sales potential. Item-by-item management also means that shelf and storage space can be better utilized. The end result — a merchandising mix tailor-made for each store's customers, improved sales and better asset utilization — illustrates the power of RIS.

Most stores have had the system less than a year and are only beginning to realize its benefits. In the coming year we will continue to develop enhancements to the system, such as ordering and delivery check-in, which will allow stores to maintain a virtual inventory. The capabilities and benefits of this remarkable technology will continue to positively impact the operations of stores in the future.

Our proprietary Retail Information System provides a quantum leap in inventory management and customer satisfaction.

Features and Benefits of the Retail Information System at a Glance

Headquarters
- Data is transmitted daily for retrieval by merchandising department
- Special software allows for sorting and analysis at store level, by region or for the whole system
- Sales data is used to predict buying trends
- New product development and introduction is more strategic
- Bottom-line impact is anticipated

Field Office
- High-speed data lines transmit sales information
- Field consultants help store operators respond to trends and opportunities

Store
- Individual item sales are recorded at the time of sale
- Sales information is collected on computer in the store office
- Local weather, events and holidays are factored into data
- Stores remain in stock on customer favorites
- Slow-moving items are easily deleted
- Shelf and storage space are more efficiently used

Vendor
- Orders and distribution are streamlined and more accurate
- Access to sales information improves delivery timing and reliability
- Inventory management is improved

Fresh Daily: Information that gives our stores a competitive edge and leads to improved merchandising and higher sales.

Day in, day out, customers can be assured products are the freshest and highest quality available. Perishable and time-sensitive items are delivered each day to 7-Eleven stores *throughout North America.*

RIS

Sandy Holcombe
Store Manager
Dallas, Texas
Celebrating one year with 7-Eleven

Sandy Holcombe knows good customer service engenders customer loyalty. From ordering to tracking inventory to completing a sale at the register, she has found RIS makes running the store much easier and helps everyone in the store focus on and improve customer service.

Sandy felt her store had higher write-offs in fresh foods (including grill items) than it should. She and the store staff believe in the 7-Eleven commitment to "fresh daily" and in having sufficient product to meet demand. Sandy used graphs and charts provided by RIS to identify peak customer traffic times and the related opportunity to increase sales by having product on the grill for the rush of customers during these periods. The items would be fresh — just what the customer expects — and write-offs could be minimized. She views this strategy as critical for managing fresh foods. Too little product to meet demand results in lost sales just as too much product results in higher write-offs. In the first three weeks after Sandy's arrival as store manager, write-offs in the grill category were reduced by 50 percent.

Overall sales at her store are up 10 percent over last year, which she attributes to better inventory management and staying in-stock on key items, maximizing the use of RIS data and new product introductions.

Distribution Center Locations and Number of Stores Serviced
MARCH 12, 2000

Calgary, Canada — 51 Stores
Goodyear, Arizona — 103 Stores
Bay Area/Sacramento, California — 343 Stores
Los Angeles/Pomona Valley, California — 33 Stores
Denver, Colorado — 224 Stores
Orlando, Florida — 210 Stores
Pompano Beach, Florida — 118 Stores
Tampa, Florida — 211 Stores
Chicago, Illinois — 207 Stores
Aberdeen, Maryland — 172 Stores
Capitol Heights, Maryland — 176 Stores
Las Vegas, Nevada — 161 Stores
Burlington, New Jersey — 372 Stores
Long Island, New York — 227 Stores
Austin, Texas — 58 Stores
Dallas/Ft. Worth, Texas — 226 Stores
Salt Lake City, Utah — 105 Stores
Chesapeake, Virginia — 201 Stores
Richmond, Virginia — 148 Stores
Franconia, Virginia — 290 Stores

Uniquely 7-Eleven: the logistics of offering our customers what they want, when they want it.

Knowing what customers want is only half the battle... the products must be in the stores when customers want them, a challenge often not met by traditional distribution and delivery systems. Again, 7-Eleven has responded with an innovative, fresh idea. We partnered with third-party distribution experts, who own and operate the distribution centers, to build a nationwide network of CDCs and created a process that benefits our stores and ultimately, our customers. To maximize each center's efficiencies, CDCs service stores within a 100-mile radius.

Beginning in the afternoon, suppliers deliver milk, periodicals, bread, fruit and other perishables, and our commissary and bakery partners deliver fresh sandwiches and bakery products to the CDC in their area. By combining products into one location for sorting by store, the number of deliveries each store receives has been significantly reduced. CDC deliveries arrive at the store and are checked in and put on shelves by 5:00 a.m., ready and fresh for morning customers. Customer service is improved as store associates focus on customers during peak hours instead of checking in and managing deliveries.

In fact, the frequent replenishment by CDC deliveries ensures products will be in stock and that they will be the freshest possible, in many instances much fresher than other retailers who receive deliveries only two times per week. Today more than 3,700 7-Elevens are serviced by CDCs. Beyond this competitive advantage, utilizing CDCs provides cost-saving benefits as well. Frequent deliveries minimize the amount of inventory stores must have on hand which reduces inventory carrying costs. And while the markup on products distributed through traditional channels is often passed on through higher retail prices for the convenience customer, our streamlined system can eliminate some of these additional layers and results in lower distribution costs, thus better prices for our customers. As 7-Eleven continues to move toward our goal of becoming a low-cost provider, we will increase both the number of CDCs and the number of products delivered to our stores through them. We will continue to identify opportunities to reduce or eliminate various components of the cost of merchandise resulting in more competitively priced products — a standard 7-Eleven customers expect.

Using information from RIS, store operators can plan sales for the next day, week or month and purchase items in the exact quantity needed. The need to purchase large quantities of items is eliminated by the CDC's single pick and product sorting capabilities, which means stores can order and receive items in smaller quantities.

The role of our CDCs will continue to evolve as we implement our e-commerce strategy. The daily distribution system now in place — and the opportunity to increase to twice-a-day deliveries — can answer the challenge of Internet fulfillment and provide a level of convenience not previously available to online shoppers. Instead of waiting for deliveries or worrying about being home to receive them, the 7-Eleven online shopper will be able to use our stores as a 24-hour-a-day, 365-days-a-year point of purchase, pick-up or return for online merchandise such as books, music and videos. As customers discover yet another fresh reason to rely on 7-Eleven, we can leverage an existing distribution infrastructure without incremental costs typically associated with Internet fulfillment.

Fresh Daily: A distribution system that assures our stores stock fresh merchandise at the right time.

Thanks to the new international wine program, 7-Eleven customers can pick up a bottle of premium domestic or imported wine to take home for dinner and quickly be on their way.

RIS
s t o r y

Robin Starr
7-Eleven Franchisee
Las Vegas, Nevada
Celebrating 13 Years with 7-Eleven

As an independent business owner, 7-Eleven franchisee Robin Starr knows the value of accurate, timely sales information. Although she has used RIS for only about one year, she already has seen positive results. By utilizing information to identify high sales potential items, Robin has improved her store's product assortment and inventory control.

Robin's primary customer base is commuters, making staying in-stock on certain items during peak sales hours each day essential to her success. The historical sales information and local weather forecast available from RIS enables Robin and her store manager to quickly identify trends in new items and adjust ordering to ensure her store has adequate product in stock to meet customer demand. Using RIS data, she has been able to tailor her store layout and merchandise mix to meet the specific needs of her 9-to-5-customer base.

By identifying the top-selling items, Robin has lowered her inventory cost which contributes to improved operating results for her store.

Using RIS, combined with new product introduction, Robin's store in Las Vegas is currently experiencing merchandise sales increases of 12 percent over last year. Robin sees increased use of RIS as a significant benefit to franchisees as they continue to improve the operations and profitability of their stores.

Spare change adds up! Customers share the 7-Eleven commitment to helping communities. Change collection canisters at the registers in our stores help fund targeted local and national programs in our North American markets.

The world talked and we listened. Recognizing a growing trend and delivering competitively priced products positioned prepaid telecommunications services as one of the fastest growing categories in 1999. 7-Eleven customers purchased over 125 million prepaid international long distance minutes in 1999.

With our infrastructure largely complete and our strategies well under way, 7-Eleven now has the foundation to deliver long-term sustainable growth. Increasing the number of 7-Eleven stores in the United States and Canada, as well as worldwide, will contribute to incremental growth and provide franchisees, area licensees and employees with opportunities to succeed along with the company.

Improved training and communication maximize the benefits derived from our advances in merchandising, technology and distribution and are evident in a variety of areas, from field support provided by the corporate office to customer service in the store to business and operations assistance available to franchisees and area licensees.

In 1999 we held 11 University of 7-Elevens. These regional events provide franchisees, store managers and field personnel a forum for dialogue and learning, with merchandising programs, workshops designed to help improve their business and new product preview and sampling.

Our success is directly linked to our people, and we want to provide them with tools to grow their business and fulfill their career ambitions. Tools for success, good communication and strong leadership combine to make 7-Eleven an outstanding retailer.

Franchisees — 7-Eleven continued to expand communication with franchisees through the National Advisory Council and the National Coalition of 7-Eleven Franchisees, fostering improved relations and cooperation. Franchisees are benefitting from these initiatives and are seeing their investments grow. Gross profit for franchisees was up over 11 percent to $612.2 million in 1999. 7-Eleven is committed to the long-term success of its franchisees and to helping them meet the challenges of running their own business.

Employees — Creating opportunities for career pathing and job training is the 7-Eleven strategy for attracting top talent across the board and improving employee retention. Labor markets continue to be a challenge as employees look for jobs that build their base of skills and prepare them for the next career step. We will continue to improve training and development to provide meaningful careers at 7-Eleven.

Creating job assignments in stores gives employees a sense of involvement in the success of the individual store and contributes to the overall success of our business. Good communication to store associates about new products, store procedures and sales opportunities fosters improved results, employee loyalty, new job assignments and career development.

7-Eleven... A Neighborhood Partner — 7-Eleven recognizes the importance of supporting the communities where we do business. In 1999 we funded grass-roots reading grants through our People Who Read Achieve® program. Our Harvest program donated unsold fresh sandwiches and breakfast foods to local food banks. We supported law enforcement agencies with Operation Chill, a program that rewards kids for good behavior, and with Police Community Network Centers, police workstations located inside 7-Eleven stores. Whether through spare change canisters on our counters or through the volunteer hours our franchisees and employees generously give, 7-Eleven will continue to prove we are a part of the community.

The 7-Eleven difference is success. People fulfilling their career dreams by serving customers' needs – anywhere in the world.

Fresh Daily: Opportunities for franchisees, area licensees and employees to grow their investments and careers along with 7-Eleven.

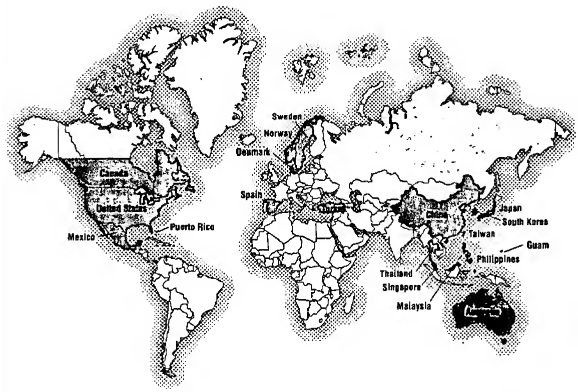
7-Eleven Represents Convenience All Over the World

A global brand right in your own neighborhood: from Tokyo to Tampa, from Denmark to Dallas, neighborhoods benefit from the convenience provided by 7-Eleven. Our brand is among the most recognized within 17 countries and 2 territories. Last year these 19,500 stores generated total sales of $27 billion.

In 1999 we began to evaluate new markets for entry and opportunities for expansion in existing licensed areas, an important component of our growth plan.

We also began to leverage our worldwide store base and size to capture incremental sales and build purchasing efficiencies by combining with area licensees around the globe. The introduction of our international wine program was a big step in this direction. By combining the purchasing power of our U.S. stores with that of several international area licensees, we purchased wine more cost-effectively.

The size of the store base combined with sound operating strategies positions us to pursue global opportunities and alliances across many aspects of our business, including e-commerce. This combination also positions us to grow our presence in new and existing markets and prepare us for expansion throughout the world, delivering sustainable growth on a truly global scale.



Financial Review

Selected Financial Data

(Dollars in Millions, Except Per-Share Data)	Years Ended December 31 1999	1998	1997	1996	1995
Merchandise sales	$6,216.1	$5,573.6	$5,181.8	$5,084.0	$5,063.7
Gasoline sales	2,035.6	1,684.2	1,789.4	1,784.9	1,682.1
Net sales	8,251.7	7,257.8	6,971.2	6,868.9	6,745.8
Other income	97.8	92.0	89.4	86.4	78.5
Total revenues	8,349.5	7,349.8	7,060.6	6,955.3	6,824.3
LIFO charge	9.9	2.9	0.1	4.7	2.6
Depreciation and amortization	205.5	194.7	196.2	185.4	166.4
Interest expense, net	102.2	91.3	90.1	90.2	85.6
Earnings before income taxes and extraordinary gain	127.3	82.6	115.3	130.8	101.5
Income taxes (benefit)(1)	48.5	31.9	45.3	41.3	(66.1)
Earnings before extraordinary gain	78.8	50.7	70.0	89.5	167.6
Net earnings(2)	83.1	74.0	70.0	89.5	270.8
Earnings before extraordinary gain per common share:					
Basic	.19	.12	.17	.22	.41
Diluted	.17	.12	.16	.20	.40
Total assets(3)	2,685.7	2,476.1	2,138.6	2,083.0	2,135.2
Long-term debt, including current portion	2,010.2	1,940.6	1,803.4	1,707.4	1,850.6

(1) Income taxes (benefit) for 1995 includes an $84.3 million tax benefit from recognition of the remaining portion of the Company's net deferred tax assets.

(2) Net earnings for 1999, 1998 and 1995 include extraordinary gains of $4.3 million, $23.3 million and $103.2 million, respectively, on debt redemptions. (See Note 9 to the Consolidated Financial Statements.)

(3) Total assets for 1998, 1997, 1996 and 1995 have been reclassified to conform to the current-year presentation.

Management's Discussion and Analysis and Results of Operations

Some of the matters discussed in this annual report contain forward-looking statements regarding the Company's future business which are subject to certain risks and uncertainties, including competitive pressures, adverse economic conditions and government regulations. These issues, and other factors, which may be identified from time to time in the Company's reports filed with the SEC, could cause actual results to differ materially from those indicated in the forward-looking statements.

Management Strategy Overview

Over the past several years, the Company has undertaken a number of operating strategies and infrastructure development initiatives designed to improve efficiencies in operations, provide better service to customers, ensure product variety, quality and freshness, and position the Company to deliver sustainable, long-term growth. These strategies include:

- utilization of technology;
- improved merchandising;
- continual introduction of new items;
- expanding and enhancing the fresh food program;
- utilization of a more efficient distribution system; and
- developing new stores.

Information Technology. The core of these operating strategies is the Retail Information System, which is now installed in all U.S. stores. This proprietary system provides store operators and management at the corporate office and in the field with timely access to item-by-item sales information captured via a point-of-sale scanning system at the register. Access to product assortment and historical sales data enhances the ability:

- to improve merchandising decisions and in-stock conditions;
- to identify customer changes in preference, developing trends in the market and items with high or limited sales potential;
- for the store operator to make better merchandising and ordering decisions; and
- for each store to better tailor its product mix to align with customer demographics and buying patterns.

Merchandising/New Item Introduction. The continual introduction of new items is an important part of the long-term operating strategy. To meet changing customer needs and build sales, an average of 40 new items were available to 7-Eleven stores each week during 1999. Several significant new item introductions contributed approximately $150 million, or 25%, to the growth in merchandise sales year over year. Partnering with key vendors to develop and introduce proprietary items is an integral part of merchandising strategy, like the introduction of Bakery Stix™ by Kraft in July. With approximately 19,500 stores located throughout the world, management is seeking opportunities to leverage the number of stores to achieve greater purchasing efficiencies as well as enhance access to products, like the introduction of a proprietary French wine during the 1999 holiday season.

Fresh Foods. The Company continues to refine its fresh food program and believes this category represents a tremendous opportunity as food-to-go increases in popularity among all consumer segments. The Company has partnered with third-party commissary and bakery experts who own and operate the facilities which are strategically located in close proximity to one of the Combined Distribution Centers ("CDCs"). This arrangement has a number of key advantages including:

- allowing new items to be tested easily;
- allowing item selection to be regionalized based on demographics; and
- providing management the ability to focus more on new product development.

Today, proprietary World Ovens® bakery products and Prime Deli sandwiches and breakfast items are delivered fresh each day to over 3,700 stores.

Demand Chain Management. The Company has been implementing a daily distribution infrastructure to support the fresh food program and other merchandising initiatives and has partnered with third-party logistics

experts, who own and operate the 20 CDCs that are located throughout the U.S. and Canada. Today, 3,700 stores receive daily delivery of fresh food and other time-sensitive and perishable items such as dairy products. The advantages of CDCs are as follows:

- the accuracy of deliveries is greatly improved;
- stores have access to a much broader range of products that might otherwise not be available through traditional methods of delivery;
- delivery times occur during off-peak hours;
- products are fresher;
- economies of scale provide a better product cost structure; and
- frequent replenishment minimizes inventory in the stores.

As part of the overall strategy to improve distribution to the stores, the Company has worked with other vendors who deliver directly to the store to minimize the frequency of deliveries, improve the accuracy and scheduling of deliveries and increase the number of items delivered through the CDCs.

New Store Development. 7-Eleven stores are located strategically in urban and suburban markets, which has a number of advantages, including:

- stores being located in high traffic areas;
- the ability of the Company to establish itself as the primary provider of convenience in those areas; and
- greater efficiencies for both infrastructure utilization and advertising dollars.

During 1999, the Company opened 165 new stores in the U.S. and Canada and plans to open 200 new stores each year for the foreseeable future. These new stores are generally located in existing markets, which increases utilization of both the CDC and fresh food programs as well as providing a stronger market presence.

E-commerce. In January 2000, the Company announced plans to install self-service financial services kiosks in stores located in the Dallas/Fort Worth area during 2000. The touch-screen kiosks will immediately provide customers with the ability to:

- cash checks;
- purchase money orders;
- perform traditional ATM transactions; and
- execute wire transfers.

In the future, a wide range of services will be introduced, including event ticketing and e-commerce applications such as on-line shopping for books, music and videos. The Company has a unique opportunity to serve as a point of access for both the ordering and delivery of a wide variety of e-commerce products and services. The Company's e-commerce strategy is to leverage the kiosks and the 7-Eleven web site, providing customers a point of contact to the Internet, with the nationwide network of stores and daily distribution infrastructure to provide an element of convenience to on-line shopping. The daily distribution capabilities provided by the combined distribution centers will enable customers to pick up items ordered on-line at their convenience 24 hours a day, 365 days a year.

Results of Operations

Summary of Results of Operations

The Company's net earnings for the year ended December 31, 1999, were $83.1 million, compared to net earnings of $74.0 million in 1998 and $70.0 million in 1997.

	Years Ended December 31		
(Dollars in Millions, Except Per-Share Data)	1999	1998	1997
Earnings before income taxes and extraordinary gain	$127.3	$ 82.6	$115.3
Income tax expense	(48.5)	(31.9)	(45.3)
Extraordinary gain on debt redemption (net of tax)	4.3	23.3	–
Net earnings	$ 83.1	$ 74.0	$ 70.0
Net earnings per common share – Basic	$ .20	$ .18	$ .17
Net earnings per common share – Diluted	$ .18	$ .17	$ .16

The Company's earnings before income taxes and extraordinary gain increased $44.7 million in 1999, primarily due to merchandise sales and gross profit growth, combined with several charges or credits that impacted 1999 and 1998 results. 1999 results included a $14 million credit related to an environmental adjustment, offset by $4.7 million of termination benefits. The 1998 results included charges of $14.1 million associated with write-offs of computer equipment and development costs, $11.4 million for deletion of excess or slow-moving inventory and $7.6 million in severance and related costs.

(Except where noted, all per-store numbers refer to an average of all stores rather than only stores open more than one year.)

Sales

Net sales grew $994 million in 1999, or 13.7%, when compared to 1998. The following table illustrates the Company's sales growth over the last 3 years:

	Years Ended December 31		
Increase/(decrease) from prior year	1999	1998	1997
Net Sales (in billions)	$8.25	$7.26	$6.97
U.S. same-store merchandise sales growth	9.1%	5.7%	1.5%

Merchandise Sales Growth Data. Total merchandise sales increased 11.5% in 1999 and 7.6% in 1998 compared to the prior year. Sales increases have been driven by strong same-store sales growth, increases in the store base (77 stores in 1999 and 203 stores in 1998) and cost inflation relative to cigarettes in 1999. The same-store sales growth in part is attributable to the ongoing implementation of strategic initiatives and the consistent introduction of new products. With the exception of cigarettes, inflation has been relatively low and fairly consistent over the last several years. Cigarette wholesale cost increases, which were reflected in higher retail prices, accounted for approximately four to five percentage points of the same-store merchandise sales growth in 1999. In 1998, the cigarette category impacted same-store merchandise sales growth by less than 2%.

While average per-store merchandise sales growth has been fairly consistent among the various geographical areas, category results have been mixed Categories driving the 1999 merchandise sales increase included:

- cigarettes, where sales increased primarily due to retail price increases associated with manufacturer cost and excise tax increases;
- prepaid phone cards and trading cards, where sales are up primarily due to the introduction of new products; and
- non-carbonated beverage sales continue to rise due to the introduction of new products and flavors and the continuing shift away from carbonated drinks.

Categories with significant merchandise sales increases in 1998 were:

- cigarettes, where sales increased primarily due to retail price increases associated with manufacturer cost increases;
- Café Cooler™, a frozen non-carbonated drink introduced in the spring of 1998, which provided incremental growth in per-store sales;
- Slurpee®, non-carbonated drinks and coffee, which increased substantially, partially due to the introduction of new products, flavors and packaging; and
- fresh foods/bakery, due in part to new and expanded CDC services/products.

Several mature categories have had slight declines over the last two years primarily due to a shift in customer preferences. These categories include newspapers, carbonated beverages and prepackaged bakery/bread.

Gasoline Sales Growth Data. Gasoline sales dollars per store increased 14.4% in 1999, compared to 1998, after a decline of 10.6% in 1998, compared to 1997. The retail price of gasoline is a large factor in these fluctuating sales dollars, with the average price increasing 12 cents per gallon in 1999 after dropping 18 cents per gallon in 1998, compared to the prior year. Other factors increasing 1999 sales were an average per-store gallon volume increase of 3.5%, combined with operating an average of 118 more gasoline facilities. In 1998, gasoline gallon sales per store

increased 4.2% when compared to 1997. The average per-store gasoline volume increases are primarily due to new stores, which pump higher volumes than existing stores.

Other Income

Other income of $97.9 million for 1999 was $5.8 million higher than 1998 and $8.4 million higher than 1997. The improvement over the last two years is a combination of increased royalty income from licensed operations, combined with fees generated from higher levels of franchising activity. In 1999, approximately $56 million of the royalties were from area license agreements with Seven-Eleven Japan, Co., Ltd. ("SEJ"). One year following repayment of the Company's 1988 Yen-denominated loan (see Note 9 to the Consolidated Financial Statements), currently projected for 2001, royalty payments from SEJ will be reduced by approximately two-thirds in accordance with terms of the amended license agreement.

Gross Profits

Gross Profit on Merchandise. The following table sets forth information on the Company's gross profits on merchandise sales for each of the last three years:

	Years Ended December 31		
(Dollars in Millions)	1999	1998	1997
Merchandise Gross Profit	$2,142.4	$1,927.6	$1,828.4
Gross profit margin percent	34.46%	34.58%	35.29%
Increase/(decrease) from prior year – all stores			
Average per-store gross profit dollar change	8.8%	3.2%	2.3%
Margin percentage point change	(.12)	(.71)	.13
Average per-store merchandise sales	9.1%	5.2%	1.9%

The improvement in 1999 and 1998 total merchandise gross profit dollars, compared to 1998 and 1997, respectively, was due to a combination of higher per-store sales and more stores. Somewhat offsetting these increases in sales was margin, which declined 12 basis points in 1999 and 71 basis points in 1998.

The slight merchandise margin decline in 1999 was primarily due to several cigarette cost and excise tax increases (net of manufacturer buy-downs) since November of 1998. Although the cigarette cost increases have caused margin to decline, per-store gross profit dollars in the category have increased. Partially offsetting the impact of these cost increases was the successful introduction of new high-margin products, including Pokémon trading cards, Früt Cooler™ and Bakery Stix™, combined with increased sales in certain higher margin products such as coffee and non-carbonated beverages.

Merchandise margin declined in 1998, primarily due to product cost increases and continuing refinement of the Company's everyday-fair-pricing strategy. Merchandise margin was also impacted by introductory costs associated with new product offerings, combined with the further rollout of the Company's fresh food initiatives into four new markets.

Cigarettes (based on the Company's purchases) currently contribute nearly 24% of the Company's total merchandise sales and more than 17% of merchandise gross profit. With the recent and pending legal settlements between cigarette manufacturers and several state governments, as well as potential additional taxes and litigation threatened by the federal government, the Company anticipates that the cost of cigarettes could continue to rise. Additionally, there are numerous examples of pending state and federal legislation aimed at reducing minors' consumption of tobacco products, which include significant increases in cigarette taxes. Although the Company expects merchandise margin percent to be negatively impacted by these price increases, it is impossible to predict the impact potential cost increases could have on the Company's gross profit dollars, due to uncertainties regarding competitors' reactions and consumers' buying habits.

Gross Profit on Gasoline The following table sets forth information on the Company's gross profits on sales of gasoline for each of the last three years:

(Dollars In Millions)	Years Ended December 31 1999	1998	1997
Gasoline Gross Profit	$223.4	$208.0	$183.8
Gross profit margin (in cents per gallon)	13.25	13.48	13.07
Increase/(decrease) from prior year			
Average per-store gross profit dollar change	1.7%	7.5%	(3.5)%
Gross profit margin (in cents per gallon)	(.23)	.41	(.38)
Average per-store gas gallonage	3.5%	4.2%	(.7)%

Gasoline gross profits improved $15.4 million in 1999 over 1998. This improvement was due to more gas stores and higher average per-store gasoline gallon sales, which were partially offset by lower gasoline margin. The gasoline market in 1999 saw rising wholesale costs associated with OPEC lowering its production, while the 1998 market had declining cost, which helped ease the competitive pressures that had narrowed margins in 1997. As a result, the Company experienced slightly less favorable gross profit growth in 1999, than it would have under 1998's market conditions.

Franchisee Share of Gross Profit

The Company reports all sales and gross profits from franchised stores in its consolidated results. As part of its franchise agreement, the Company records as an expense a percentage of the gross profits generated by the franchisees. As franchisee gross profits have increased, this expense has increased to $612.2 million in 1999, from $551.0 million in 1998 and $524.9 million in 1997.

Operating, Selling, General and Administrative Expenses ("OSG&A")

(Dollars In Millions)	Years Ended December 31 1999	1998	1997
Total operating, selling, general and administrative expenses	$1,621.9	$1,502.8	$1,371.3
Ratio of OSG&A to sales	19.7%	20.7%	19.7%
Increase/(decrease) in OSG&A compared to prior year	$ 119.1	$ 131.5	$ 50.3

The ratio of OSG&A expenses to sales decreased 1.0 percentage point in 1999 compared to 1998, after increasing 1.0 percentage point in 1998 compared to 1997. Fluctuations in the retail price of gasoline have impacted this ratio significantly over the last two years, with a 12 cent per gallon increase in 1999, when compared to 1998, which followed an 18 cent per gallon decrease in 1998, compared to 1997. In addition, several charges/credits impacted 1999 and 1998 OSG&A expenses. In 1999 OSG&A expenses included an environmental credit of $14 million related to legislative changes in California (see Environmental section), offset by $4.7 million of termination benefit costs. 1998 OSG&A expenses included $14.1 million associated with the write-offs of computer equipment and development costs and $7.6 million in severance and related costs (see Summary of Results of Operations). After adjusting for retail gasoline price fluctuations and these charges/credits, the ratio of OSG&A expense to sales decreased slightly in 1999, compared to 1998, while the 1998 and 1997 ratios are virtually even.

The 1999 OSG&A expense was $119 million higher than 1998, while 1998 was $132 million higher than 1997. Contributing to these increases were higher store labor costs, costs associated with operating more stores and increased expenses related to the implementation of the Company's retail information system as well as other strategic initiatives. Expenses associated with the Company's retail information system were approximately $27 million higher in 1999, compared to 1998 and $13 million higher in 1998 than in 1997. While the Company has had strong sales growth over the past two years, the ratio of OSG&A expenses to sales has not improved

consistently, in part due to investing in the retail information system and other strategic initiatives to better situate the Company for future growth and an improved competitive position.

The Company continues to review the functions necessary to enable its stores to respond faster and more cost efficiently to rapidly changing customer needs and preferences. In conjunction with this review, management continues to realign and reduce personnel in order to eliminate non-essential costs, while devoting resources to the implementation of its retail information system and other strategic initiatives (see Management Strategies). In 1999, accruals of $4.7 million were made representing termination benefits for 40 management and administrative employees. During 1998, accruals of $7.6 million were made representing severance benefits for close to 120 employees whose positions were terminated.

Interest Expense, Net

Net interest expense increased $10.9 million in 1999, compared to 1998. Factors increasing 1999 interest expense include higher borrowings to finance new store development and other initiatives, combined with the redemption of $65 million of the Company's public debt securities in 1998 and early 1999. The redeemed public debt had been accounted for under Statement of Accounting Standards No. 15 ("SFAS No. 15") (see discussion below and the Extraordinary Gain section).

As of December 31, 1999 approximately 49% of the Company's debt contains floating rates that will be unfavorably impacted by rising interest rates. The Company has effectively eliminated 25% of its exposure to rising interest rates through an interest rate swap agreement (see Interest Rate Swap Agreement). The weighted-average interest rate for such debt, including the impact of the interest rate swap agreement, was 5.6% for 1999, versus 5.7% for 1998 and 5.8% for 1997.

The Company expects net interest expense in 2000 to decrease approximately $23 million, compared to 1999 based on anticipated levels of debt and interest rate projections. The reduced interest expense is primarily due to a $540 million investment by IYG Holding Company in 7-Eleven, Inc. (see Liquidity and Capital Resources).

In accordance with SFAS No. 15, no interest expense is recognized on the Company's public debt securities. These securities were recorded at an amount equal to the future undiscounted cash payments, both principal and interest, and accordingly, the cash interest payments are charged against the recorded amount of such securities and are not treated as interest expense. As a result, interest expense on debt used to redeem public debt securities would increase the Company's reported interest expense.

Interest Rate Swap Agreement

In February 1999, the Company amended the terms of an interest rate swap agreement. The terms of the amended agreement fixes the interest rate on $250 million notional principal of existing floating rate debt, at 6.1% through February 2004.

Income Taxes

The Company recorded income tax expense, from earnings before extraordinary gains, in 1999 of $48.5 million, compared to $31.9 million in 1998 and $45.3 million in 1997. The 1999 and 1998 extraordinary gains were net of tax expense of $2.7 million and $14.9 million, respectively.

Extraordinary Gain

In the first quarter of 1999, the Company redeemed $19.4 million of its public debt securities resulting in a $4.3 million after-tax gain. During 1998, the Company redeemed $45.6 million of its public debt securities resulting in a $23.3 million after-tax gain. These gains resulted from the retirement of future undiscounted interest payments as recorded under SFAS No. 15, combined with repurchasing a portion of the debentures below their face amount.

Liquidity and Capital Resources

The majority of the Company's working capital is provided from three sources:

- cash flows generated from its operating activities;
- a $650 million commercial paper facility (guaranteed by Ito-Yokado Co., Ltd.); and
- short-term seasonal borrowings of up to $400 million (reduced by outstanding letters of credit) under its revolving credit facility.

The Company believes that operating activities, coupled with available short-term working capital facilities, will provide sufficient liquidity to fund current commitments for operating and capital expenditure programs, as well as to service debt requirements. Actual capital expenditure funding will be dependent on the level of cash flow generated from operating activities and the funds available from financings.

On March 16, 2000, the Company issued 113,684,211 shares of common stock at $4.75 per share to IYG Holding Company in a private placement transaction. The net proceeds of $540 million are primarily being used to repay the outstanding balance on the Company's bank term loan, to repay the outstanding balance of the Company's bank revolver and to reduce commercial paper facility borrowings.

In December 1999 and January 2000, the Company entered into separate sale-leaseback agreements for certain of its store properties, pursuant to which land, buildings and related improvements were sold and leased back by the Company. The Company received proceeds of $58.9 million and $73.4 million on the sale of 30 and 33 stores, respectively. These proceeds will be used primarily for further debt reduction. The sales resulted in deferred gains of approximately $22 million that will be recognized on a straight-line basis over the initial term of the leases. (See Note 13 to the Consolidated Financial Statements.)

In August 1999, the Company entered into a leasing facility that will provide up to $100 million of off-balance-sheet financing to be used for the construction of new stores. Funding under this facility is available through August of 2001 with a final maturity of the leases of February 2005. As of December 31, 1999, $28.3 million was funded under this facility. (See Note 13 to the Consolidated Financial Statements.)

In January 1999, the Company expanded the existing commercial paper facility from $400 million to $650 million. The commercial paper is unsecured but is fully and unconditionally guaranteed by Ito-Yokado Co., Ltd.

7-Eleven's credit agreement, established in February 1997, includes a term loan with a balance of $112.5 million at December 31, 1999 and a $400 million revolving credit facility, which has a sublimit of $150 million for letters of credit ("Credit Agreement"). The Credit Agreement contains certain financial and operating covenants requiring, among other things, the maintenance of certain financial ratios, including interest and rent coverage, fixed-charge coverage and senior indebtedness to net earnings before extraordinary items and interest, taxes, depreciation and amortization ("EBITDA"). The covenant levels established by the Credit Agreement generally require continuing improvement in the Company's financial condition. In March 1999, the financial covenant levels required by these instruments were amended prospectively in order to allow the Company flexibility to continue its strategic initiatives including store growth. In connection with this amendment, the interest rate on borrowings was changed to a reserve-adjusted Eurodollar rate plus .475% instead of the previous increment of .225%.

For the period ended December 31, 1999, the Company was in compliance with all of the covenants required under the Credit Agreement, including compliance with the principal financial and operating covenants under the Credit Agreement (calculated over the latest 12-month period) as follows:

Covenants	Actuals	Requirements Minimum	Requirements Maximum
Interest and rent coverage*	2.06 to 1.0	1.90 to 1.0	
Fixed charge coverage	1.70 to 1.0	1.50 to 1.0	
Senior indebtedness to EBITDA	3.71 to 1.0		3.95 to 1.0
Total expenditure limit (tested annually)	$442.9		$475 million

*Includes effects of the SFAS No. 15 interest payments.

In 1999, the Company repaid $147.4 million of debt, which included principal payments of $56.3 million for quarterly installments due on the term loan, $46.5 million on the Company's yen-denominated loan (secured by the royalty income stream from its area licensee in Japan), $20.9 million related to capital lease obligations and $17.8 million for SFAS No. 15 interest. Outstanding balances at December 31, 1999 for commercial paper, revolver and term loan, were $634.4 million, $250.0 million and $112.5 million, respectively. As of December 31, 1999, outstanding letters of credit issued pursuant to the Credit Agreement totaled $70.2 million.

Cash from Operating Activities

Net cash provided by operating activities was $292.2 million for 1999, compared to $232.8 million in 1998 and $197.9 million in 1997.

Capital Expenditures

In 1999, net cash used in investing activities consisted primarily of payments of $428.8 million for property and equipment. The majority of this capital was used for new-store development, continued implementation of the Company's retail information system, remodeling stores, new equipment to support merchandising initiatives, upgrading retail gasoline facilities, replacing equipment and complying with environmental regulations.

The Company expects 2000 capital expenditures, excluding lease commitments, to exceed $325 million. Capital expenditures are being used to develop or acquire new stores, upgrade store facilities, further enhance the retail information system, replace equipment, upgrade gasoline facilities and comply with environmental regulations. The amount of expenditures during the year will be materially impacted by the proportion of new store development funded through capital expenditures versus leases and the speed at which new sites/acquisitions can be located, negotiated, permitted and constructed.

Capital Expenditures – Gasoline Equipment

The Company incurs ongoing costs to comply with federal, state and local environmental laws and regulations primarily relating to underground storage tank ("UST") systems. The Company anticipates it will spend nearly $0.4 million in 2000 on capital improvements required to comply with environmental regulations relating to UST systems as well as above-ground vapor recovery equipment at store locations, with approximately $12-15 million on such capital improvements from 2001 through 2003.

Quantitative and Qualitative Disclosure About Market Risk

The following discussion summarizes the financial and derivative instruments held by the Company at December 31, 1999, which are sensitive to changes in interest rates, foreign exchange rates and equity prices. The Company uses interest-rate swaps to manage the primary market exposures associated with underlying liabilities and anticipated transactions. The Company uses these instruments to reduce risk by essentially creating offsetting market exposures. In addition, the two yen-denominated loans serve to effectively hedge the Company's exposure to yen-dollar currency fluctuations. The instruments held by the Company are not leveraged and are held for purposes other than trading. There are no material quantitative changes in market risk exposure at

December 31, 1999, when compared to December 31, 1998

In the normal course of business, the Company also faces risks that are either nonfinancial or nonquantifiable. Such risks principally include country risk, credit risk and legal risk and are not represented in this discussion.

Interest-Rate Risk Management. The table below presents descriptions of the floating-rate financial instruments and interest-rate-derivative instruments the Company held at December 31, 1999. The Company entered into an interest-rate swap to achieve the appropriate level of variable and fixed-rate debt as approved by senior management. Under the interest-rate swap, the Company agreed with other parties to exchange the difference between fixed-rate and floating-rate interest amounts on a quarterly basis.

For the debt, the table below presents principal cash flows that exist by maturity date and the related average interest rate. For the swap, the table presents the notional amounts outstanding and expected interest rates that exist by contractual dates. The notional amount is used to calculate the contractual payments to be exchanged under the contract. The variable rates are estimated based on implied forward rates in the yield curve at the reporting date. Additionally, the interest rate on the bank debt reflects a LIBOR margin of 47.5 basis points as prescribed in the Credit Agreement.

(Dollars In Millions)	2000	2001	2002	2003	2004	There-after	Total	Fair Value
Floating-Rate Financial Instruments:								
Bank debt	$ 56	$ 56	$250	$ 0	$ 0	$ 0	$362	$362
Commercial paper	$ 34	$ 0	$ 0	$ 0	$ 0	$600	$634	$634
Average interest rate	6.9%	7.5%	7.3%	7.3%	7.5%	7.5%	7.3%	
Interest-Rate Derivatives:								
Notional amount	$250	$250	$250	$250	$250	$ 0	$250	$ 7
Average pay rate	6.1%	6.1%	6.1%	6.1%	6.1%	0%	6.1%	
Average receive rate	6.8%	7.3%	7.3%	7.3%	7.5%	0%	7.2%	

The $7 million fair value of the interest-rate swap represents the amount that would be received from the counterparty if the Company chose to terminate the swap. See Note 11 to the Consolidated Financial Statements for detailed information on floating-rate and fixed-rate liabilities as well as fair value and derivative discussions.

Foreign-Exchange Risk Management. The Company recorded nearly $73 million in royalty income in 1999 that could have been impacted by fluctuating exchange rates. Approximately 77% of such royalties were from area license agreements with Seven-Eleven Japan, Co., Ltd. ("SEJ"). SEJ royalty income will not fluctuate with exchange rate movements since the Company has effectively hedged this exposure by using the royalty income to make principal and interest payments on its yen-denominated loans (see Note 9 to the Consolidated Financial Statements). The Company is exposed to fluctuating exchange rates on the non-SEJ portion of its royalties earned in foreign currency, but based on current estimates, future risk is not material.

The Company has several wholly or partially owned foreign subsidiaries and is susceptible to exchange-rate risk on earnings from these subsidiaries. Based on current estimates, the Company does not consider future foreign-exchange risk associated with these subsidiaries to be material.

Equity-Price Risk Management. The Company has equity securities of other companies, which are classified as available for sale and are carried in the Consolidated Balance Sheets at fair value. Changes in fair value are

recognized as other comprehensive earnings, net of tax, as a separate component of shareholders' equity. At December 31, 1999, the Company held the following available-for-sale marketable equity securities:

(Dollars in Millions)	Cost	Fair Value
387,200 shares of ACS common stock	$0	$17.8
151,452 shares of Precept common stock	$0	$ 0.5

The Affiliated Computer Services, Inc. stock ("ACS") was obtained in 1988 as partial consideration for the Company to enter into a mainframe data processing contract with ACS. At the time, ACS was a privately held start-up company and accordingly the stock was valued with no cost. Subsequently ACS became a public company and Precept Business Services, Inc. was spun off from ACS and also became a public company.

Other Issues

Environmental

In December 1988, the Company closed its chemical manufacturing facility in New Jersey. The Company is required to conduct environmental remediation at the facility, including groundwater monitoring and treatment for a projected 15-year period, which commenced in 1998. The Company has recorded undiscounted liabilities representing its best estimates of the clean-up costs of $7.3 million at December 31, 1999. In 1991, the Company and the former owner of the facility entered into a settlement agreement pursuant to which the former owner agreed to pay a substantial portion of the clean-up costs. Based on the terms of the settlement agreement and the financial resources of the former owner, the Company has a receivable of $4.3 million recorded at December 31, 1999.

Additionally, the Company accrues for the anticipated future costs and the related probable state reimbursement amounts for remediation activities at its existing and previously operated gasoline sites where releases of regulated substances have been detected. At December 31, 1999 the Company's estimated undiscounted liability for these sites was $33.4 million. This estimate is based on the Company's prior experience with gasoline sites and its consideration of such factors as the age of the tanks, location of tank sites and experience with contractors who perform environmental assessment and remediation work. The Company anticipates that substantially all of the future remediation costs for detected releases at these sites as of December 31, 1999 will be incurred within the next four to five years.

Under state reimbursement programs, the Company is eligible to receive reimbursement for a portion of future remediation costs, as well as a portion of remediation costs previously paid. Accordingly, at December 31, 1999, the Company has recorded a net receivable of $52.8 million for the estimated probable state reimbursements, which includes an increase of approximately $14 million resulting from recent legislative changes in California which have expanded and extended that state's program. In assessing the probability of state reimbursements, the Company takes into consideration each state's fund balance, revenue sources, existing claim backlog, status of clean-up activity and claim ranking systems. As a result of these assessments, the recorded receivable amount is net of an allowance of $8.1 million.

While there is no assurance of the timing of the receipt of state reimbursement funds, based on its experience, the Company expects to receive the majority of state reimbursement funds, except from California, within one to three years after payment of eligible remediation expenses. This time period assumes that the state administrative procedures for processing such reimbursements have been fully developed. Because of recent legislative changes in California, the Company now estimates it will receive reimbursement of most of its identified remediation expenses in California, although it may take one to ten years to receive these reimbursement funds. As a result of the timing in receiving reimbursement funds from the various states, the

Company has present valued the portion of the total recorded receivable amount that relates to remedial activities that have already been completed at a discount rate of approximately 6.4%. Thus, the recorded receivable amount is also net of an aggregate discount of $15.0 million.

The estimated future assessment and remediation expenditures and related state reimbursement amounts could change within the near future as governmental requirements and state reimbursement programs continue to be implemented or revised.

Litigation

The Company is a defendant in two legal actions, which are referred to as the 7-Eleven OFFF and Valente cases, filed by franchisees in 1993 and 1996, respectively, asserting various claims against the Company. A nationwide settlement was negotiated and, in connection with the settlement, these two cases have been combined on behalf of a class of all persons who operated 7-Eleven convenience stores in the United States at any time between January 1, 1987 and July 31, 1997, under franchise agreements with the Company. Class members have overwhelmingly approved the settlement, and the court presiding over the settlement process gave its final approval of the settlement on April 24, 1998. The settlement provides that former franchisees will share in a settlement fund and that certain changes will be made to the franchise agreements with current franchisees.

Notices of appeal of the order approving the settlement were filed on behalf of three of the attorneys who represented the class, six former franchisees and two current franchisees. One of these current franchisees has dismissed his appeal. The settlement agreement will not become effective until the appeals are resolved. However, the settlement agreement provides that while the appeals are pending the Company will pay certain maintenance and supply expenses relating to the cash registers and retail information system equipment of current franchisees that are members of the settlement class. If the settlement is overturned on appeal, the Company has the right to require franchisees to repay the amounts that the Company paid for these expenses while the appeals were pending. The Company's payment of these expenses had no material impact on earnings for 1998 or 1999 and should have no material impact on future earnings. The Company's accruals are sufficient to cover the total settlement costs, including the payment due to former franchisees when the settlement becomes effective.

Impact of Year 2000 Issues

Over the last several years, the Company has prepared for the possible disruptions that might have resulted from the date change to the Year 2000. No significant Year 2000 problems were experienced and at this point the Company believes no material exposure to Year 2000 issues exist. Total expenditures related to the modifications of existing software and conversions to new software for the Year 2000 issues totaled approximately $8.8 million, of which $3.7 million was capitalized.

Recently Issued Accounting Standard

The Company is currently reviewing SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. SFAS No. 133 becomes effective for all fiscal quarters of fiscal years beginning after June 15, 2000, and earlier application is permitted as of the beginning of any fiscal quarter subsequent to June 15, 2000. The Company intends to adopt the provisions of this statement as of January 1, 2001. The impact of the adoption of SFAS No. 133 has not been determined at this time due to the Company's continuing investigation of its financial instruments and the applicability of SFAS No. 133 to them.

Consolidated Balance Sheets

(Dollars In Thousands, Except Per-Share Data)	December 31 1999	1998
Assets		
Current Assets:		
Cash and cash equivalents	$ 76,859	$ 87,115
Accounts receivable	179,039	148,046
Inventories	134,050	101,045
Other current assets	115,328	162,631
Total current assets	505,276	498,837
Property and Equipment	1,880,520	1,652,932
Other Assets	299,870	324,310
	$ 2,685,666	$ 2,476,079
Liabilities and Shareholders' Equity (Deficit)		
Current Liabilities:		
Trade accounts payable	$ 168,302	$ 136,059
Accrued expenses and other liabilities	401,216	422,633
Commercial paper	34,418	18,348
Long-term debt due within one year	207,413	151,754
Total current liabilities	811,349	728,794
Deferred Credits and Other Liabilities	251,073	220,653
Long-Term Debt	1,802,819	1,788,843
Convertible Quarterly Income Debt Securities	380,000	380,000
Commitments and Contingencies		
Shareholders' Equity (Deficit):		
Preferred stock, $.01 par value; 5,000,000 shares authorized; no shares issued and outstanding		
Common stock, $.0001 par value; 1,000,000,000 shares authorized; 409,998,953 and 409,922,935 shares issued and outstanding	41	41
Additional capital	625,728	625,574
Accumulated deficit	(1,194,896)	(1,278,009)
Accumulated other comprehensive earnings	9,552	10,183
Total shareholders' equity (deficit)	(559,575)	(642,211)
	$ 2,685,666	$ 2,476,079

See notes to consolidated financial statements.

Consolidated Statements Of Earnings

(Dollars in Thousands, Except Per-Share Data)	Years Ended December 31 1999	1998	1997
Revenues:			
Merchandise sales (Including $527,422, $466,013 and $438,489 in excise taxes)	$6,216,133	$5,573,606	$5,181,762
Gasoline sales (Including $634,199, $577,457 and $532,635 in excise taxes)	2,035,557	1,684,184	1,789,383
Net sales	8,251,690	7,257,790	6,971,145
Other income	97,853	92,021	89,412
	8,349,543	7,349,811	7,060,557
Costs and Expenses:			
Merchandise cost of goods sold	4,073,743	3,645,974	3,353,323
Gasoline cost of goods sold	1,812,115	1,476,144	1,605,603
Total cost of goods sold	5,885,858	5,122,118	4,958,926
Franchisee gross profit	612,233	551,003	524,941
Operating, selling, general and administrative expenses	1,621,881	1,502,788	1,371,265
Interest expense, net	102,232	91,289	90,130
	8,222,204	7,267,198	6,945,262
Earnings Before Income Taxes and Extraordinary Gain	127,339	82,613	115,295
Income Taxes	48,516	31,889	45,253
Earnings Before Extraordinary Gain	78,823	50,724	70,042
Extraordinary Gain on Debt Redemption (net of tax effect of $2,743 and $14,912)	4,290	23,324	–
Net Earnings	$ 83,113	$ 74,048	$ 70,042
Net Earnings Per Common Share:			
Basic			
Earnings before extraordinary gain	$ .19	$ .12	$ .17
Extraordinary gain	.01	.06	–
Net earnings	$ .20	$ .18	$ .17
Diluted			
Earnings before extraordinary gain	$ .17	$ .12	$ .16
Extraordinary gain	.01	.05	–
Net earnings	$ .18	$ .17	$ .16

See notes to consolidated financial statements.

Consolidated Statements Of Shareholders' Equity (Deficit)

(Dollars and Shares in Thousands)	Shares	Par Value	Additional Capital	Accumulated Earnings (Deficit)	Accumulated Other Comprehensive Earnings: Unrealized Gains (Losses)	Accumulated Other Comprehensive Earnings: Foreign Currency Translation	Shareholders' Equity (Deficit)
Balance at December 31, 1996	409,923	$41	$625,574	$(1,422,099)	$10,765	$(3,236)	$(788,955)
Net earnings				70,042			70,042
Other comprehensive earnings:							
Unrealized gain on equity securities (net of $958 deferred taxes)					1,498		1,498
Reclassification adjustment for gains included in net earnings (net of $1,964 tax expense)					(3,072)		(3,072)
Foreign currency translation						(1,040)	(1,040)
Total other comprehensive earnings (loss)							(2,614)
Comprehensive earnings							67,428
Balance at December 31, 1997	409,923	41	625,574	(1,352,057)	9,191	(4,276)	(721,527)
Net earnings				74,048			74,048
Other comprehensive earnings:							
Unrealized gain on equity securities (net of $7,293 deferred taxes)					11,408		11,408
Reclassification adjustment for gains included in net earnings (net of $2,649 tax expense)					(4,143)		(4,143)
Foreign currency translation						(1,997)	(1,997)
Total other comprehensive earnings (loss)							5,268
Comprehensive earnings							79,316
Balance at December 31, 1998	409,923	41	625,574	(1,278,009)	16,456	(6,273)	(642,211)
Net earnings				83,113			83,113
Other comprehensive earnings:							
Unrealized loss on equity securities (net of ($447) deferred taxes)					(698)		(698)
Reclassification adjustment for gains included in net earnings (net of $2,946 tax expense)					(4,607)		(4,607)
Foreign currency translation						4,674	4,674
Total other comprehensive earnings (loss)							(631)
Comprehensive earnings							82,482
Issuance of stock	76		154				154
Balance at December 31, 1999	409,999	$41	$625,728	$(1,194,896)	$11,151	$(1,599)	$(559,575)

See notes to consolidated financial statements.

Consolidated Statements Of Cash Flows

(Dollars In Thousands)	1999	1998	1997
	Years Ended December 31		
Cash Flows from Operating Activities:			
Net earnings	$ 83,113	$ 74,048	$ 70,042
Adjustments to reconcile net earnings to net cash provided by operating activities:			
Extraordinary gain on debt redemption	(4,290)	(23,324)	-
Depreciation and amortization of property and equipment	185,495	175,086	177,174
Other amortization	19,968	19,611	19,026
Deferred income taxes	32,476	19,190	31,812
Noncash interest expense	1,466	1,725	2,342
Other noncash (income) expense	(4,099)	2,943	96
Net loss on property and equipment	7,955	9,631	2,391
Increase in accounts receivable	(36,724)	(22,674)	(1,563)
(Increase) decrease in inventories	(33,005)	11,306	(16,010)
Decrease (increase) in other assets	3,925	(35,330)	(11,114)
Increase (decrease) in trade accounts payable and other liabilities	35,944	600	(76,250)
Net cash provided by operating activities	292,224	232,812	197,946
Cash Flows from Investing Activities:			
Payments for purchase of property and equipment	(428,837)	(380,871)	(232,539)
Proceeds from sale of property and equipment	53,512	8,607	39,648
Proceeds from sale of domestic securities	7,522	6,754	4,997
Acquisition of businesses, net of cash acquired	-	(32,929)	-
Other	7,219	1,625	1,911
Net cash used in investing activities	(360,584)	(396,814)	(185,983)
Cash Flows from Financing Activities:			
Proceeds from commercial paper and revolving credit facilities	4,872,273	7,231,795	5,907,243
Payments under commercial paper and revolving credit facilities	(4,661,427)	(7,032,120)	(5,842,539)
Proceeds from issuance of long-term debt	-	96,503	225,000
Principal payments under long-term debt agreements	(147,392)	(154,376)	(299,005)
Proceeds from issuance of convertible quarterly income debt securities	-	15,000	-
(Decrease) increase in outstanding checks in excess of cash in bank	(4,600)	11,765	4,665
Other	(750)	(4,525)	(551)
Net cash provided by (used in) financing activities	58,104	164,042	(5,187)
Net (Decrease) Increase In Cash and Cash Equivalents	(10,256)	40	6,776
Cash and Cash Equivalents at Beginning of Year	87,115	87,075	80,299
Cash and Cash Equivalents at End of Year	$ 76,859	$ 87,115	$ 87,075
Related Disclosures for Cash Flow Reporting:			
Interest paid, excluding SFAS No.15 Interest	$ (117,669)	$ (99,240)	$ (97,568)
Net income taxes paid	$ (16,181)	$ (11,721)	$ (10,482)
Assets obtained by entering into capital leases	$ 40,638	$ 33,643	$ 56,745

See notes to consolidated financial statements.

Notes To Consolidated Financial Statements

Years Ended December 31, 1999, 1998 and 1997

(Dollars in Thousands, Except Per-Share Data)

1. Accounting Policies

Principles of Consolidation – 7-Eleven, Inc. and its subsidiaries ("the Company") is owned approximately 65% by IYG Holding Company, which is jointly owned by Ito-Yokado Co., Ltd. ("IY") and Seven-Eleven Japan Co., Ltd. ("SEJ"). The Company operates more than 5,700 7-Eleven and other convenience stores in the United States and Canada. Area licensees, or their franchisees, and affiliates operate approximately 13,800 additional 7-Eleven convenience stores in certain areas of the United States, in 15 foreign countries and in the U. S. territories of Guam and Puerto Rico.

The consolidated financial statements include the accounts of 7-Eleven, Inc. and its subsidiaries. Intercompany transactions and account balances are eliminated. Prior-year amounts have been reclassified to conform to the current-year presentation.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses during the reporting period. Actual results could differ from those estimates.

Merchandise sales and cost of goods sold of stores operated by franchisees are consolidated with the results of Company-operated stores. Merchandise sales of stores operated by franchisees are $3,385,554, $3,034,951 and $2,880,148 from 3,008, 2,960 and 2,868 stores for the years ended December 31, 1999, 1998 and 1997, respectively.

The gross profit of the franchise stores is split between the Company and its franchisees. The Company's share of the gross profit of franchise stores is its continuing franchise fee, generally ranging from 50% to 58% of the merchandise gross profit of the store, which is charged to the franchisee for the license to use the 7-Eleven operating system and trademarks, for the lease and use of the store premises and equipment, and for continuing services provided by the Company. These services include merchandising, advertising, recordkeeping, store audits, contractual indemnification, business counseling services and preparation of financial summaries. In addition, franchisees receive the greater of one cent per gallon sold or 25% of gasoline gross profit as compensation for measuring and reporting deliveries of gasoline, conducting pricing surveys of competitors, changing the prices and cleaning the service areas.

Sales by stores operated under domestic and foreign area license agreements are not included in consolidated revenues. All fees or royalties arising from such agreements are included in other income. Initial fees, which have been immaterial, are recognized when the services required under the agreements are performed.

Operating Segment – The Company operates in a single operating segment – the operating, franchising and licensing of convenience food stores, primarily under the 7-Eleven name. Revenues from external customers are derived principally from two major product categories – merchandise and gasoline. The Company's merchandise sales are comprised of groceries, beverages, tobacco products, beer/wine, candy/snacks, fresh foods, dairy products, non-food merchandise and services. Services include lottery, ATM and money order service fees/commissions for which there are little, if any, costs included in merchandise cost of goods sold.

The Company does not record merchandise sales on the basis of product categories. However, based on the total dollar volume of store purchases, management estimates

that the percentages of its convenience store merchandise sales by principal product category for the last three years were as follows:

Product Categories:	Years Ended December 31 1999	1998	1997
Tobacco Products	25.8%	23.7%	22.5%
Beverages	22.9%	23.7%	23.2%
Beer/Wine	10.8%	11.3%	11.8%
Candy/Snacks	9.4%	9.5%	9.8%
Non-Foods	9.2%	8.8%	9.2%
Food Service	5.9%	6.0%	5.9%
Dairy Products	5.0%	5.3%	5.6%
Other	4.2%	4.6%	4.9%
Baked Goods	3.9%	4.2%	4.4%
Total Product Sales	97.1%	97.1%	97.3%
Services	2.9%	2.9%	2.7%
Total Merchandise Sales	100.0%	100.0%	100.0%

The Company does not rely on any major customers as a source of revenue. Excluding area license royalties, which are included in other income as stated above, the Company's operations are concentrated in the United States and Canada. Approximately 8% of the Company's net sales for the years ended December 31, 1999, 1998 and 1997 are from Canadian operations, and approximately 5% of the Company's long-lived assets for the years ended December 31, 1999 and 1998 are located in Canada.

Other Income – Other income is primarily area license royalties and franchise fee income. The area license royalties include amounts from area license agreements with SEJ of approximately $56 million, $53 million and $50 million for the years ended December 31, 1999, 1998 and 1997, respectively.

Under the present franchise agreements, initial franchise fees are generally calculated based on gross profit experience for the store or market area. These fees cover certain costs including training, an allowance for lodging for the trainees and other costs relating to the franchising of the store. The Company defers the recognition of these fees in income until its obligations under the agreement are completed Franchisee fee income was $13,987, $11,881 and $8,309 for the years ended December 31, 1999, 1998 and 1997, respectively.

Operating, Selling, General and Administrative Expenses (OSG&A) – Buying and occupancy expenses are included in OSG&A. Advertising costs, also included in OSG&A, generally are charged to expense as incurred and were $39,418, $40,144 and $35,111 for the years ended December 31, 1999, 1998 and 1997, respectively.

Interest Expense – Interest expense is net of interest income and capitalized interest. Interest income was $11,159, $12,021 and $8,788, and capitalized interest was $4,952, $2,328 and $572 for the years ended December 31, 1999, 1998 and 1997, respectively.

Income Taxes – Income taxes are determined using the liability method, where deferred tax assets and liabilities are recognized for temporary differences between the tax basis of assets and liabilities and their reported amounts in the financial statements. Deferred tax assets include tax carryforwards and are reduced by a valuation allowance if, based on available evidence, it is more likely than not that some portion or all of the deferred tax assets will not be realized.

Cash and Cash Equivalents – The Company considers all highly liquid investment instruments purchased with maturities of three months or less to be cash equivalents. Cash and cash equivalents include temporary cash investments of $8,114 and $29,167 at December 31, 1999 and 1998, respectively, stated at cost, which approximates market.

The Company utilizes a cash management system under which a book balance cash overdraft exists for the Company's primary disbursement accounts. These overdrafts represent uncleared checks in excess of cash balances in bank accounts at the end of the reporting period. The Company transfers cash on an as-needed basis to fund clearing checks (see Note 8).

Inventories – Inventories are stated at the lower of cost or market. Cost is generally determined by the LIFO method for stores in the United States and by the FIFO method for stores in Canada.

Depreciation and Amortization – Depreciation of property and equipment is based on the estimated useful lives of these assets using the straight-line method. Acquisition and development costs for significant business systems and related software for internal use are capitalized and are depreciated or amortized on a straight-line basis. Amortization of capital lease assets, improvements to leased properties and favorable leaseholds is based on the remaining terms of the leases or the estimated useful lives, whichever is shorter. The following table summarizes the years over which significant assets are generally depreciated or amortized:

	Years
Buildings	25
Leasehold improvements	3 to 20
Equipment	3 to 10
Software and other intangibles	3 to 7
License royalties and goodwill	20 to 40

Effective August 1999, the Company changed the depreciable lives of all buildings from 20 to 25 years. The effect of the change in estimate decreased depreciation expense by approximately $2,400 for the year ended December 31, 1999. The change had an immaterial effect on earnings per share for the same period. Had the change in estimate been made at January 1, 1999, depreciation expense would have decreased by approximately $5,900 for the year ended December 31, 1999.

Foreign and domestic area license royalty intangibles were recorded in 1987 at the fair value of future royalty payments and are being amortized over 20 years using the straight-line method. The 20-year life is less than the estimated lives of the various royalty agreements, the majority of which are perpetual.

Store Closings/Asset Impairment – Provision is made on a current basis for the write-down of identified owned-store closings to their net realizable value. For identified leased-store closings, leasehold improvements are written down to their net realizable value and a provision is made on a current basis if anticipated expenses are in excess of expected sublease rental income. The Company's long-lived assets, including goodwill, are reviewed for impairment and written down to fair value whenever events or changes in circumstances indicate that the carrying value may not be recoverable.

Insurance – The Company has established insurance programs to cover certain insurable risks consisting primarily of physical loss to property, business interruptions resulting from such loss, workers' compensation, employee healthcare, comprehensive general and auto liability. Third-party insurance coverage is obtained for property and casualty exposures above predetermined deductibles as well as those risks required to be insured by law or contract. Provisions for losses expected under the insurance programs are recorded based on independent actuarial estimates of the aggregate liabilities for claims incurred.

Environmental – Environmental expenditures related to existing conditions resulting from past or current operations and from which no current or future benefit is discernible are expensed by the Company. Expenditures that extend the life of the related property or prevent future environmental contamination are capitalized. The Company determines its liability on a site-by-site basis and records a liability when it is probable and can be reasonably estimated. The estimated liability of the Company is not discounted.

A portion of the environmental expenditures incurred for corrective action at gasoline sites is eligible for reimbursement under state trust funds and reimbursement programs. A related receivable is recorded for estimated probable refunds. The receivable is discounted if the amount relates to remediation activities which have already been completed. A receivable is also recorded to reflect estimated probable reimbursement from other parties (see Note 14).

2 Subsequent Events

On March 16, 2000, the Company issued 113,684,211 shares of common stock at $4.75 per share to IYG Holding Company in a private placement transaction, which increased their ownership in the Company to approximately 72%. The net proceeds of approximately $540 million was used on March 16, 2000, to repay the outstanding balance on the Company's bank term loan of $112,500 and will be used to reduce the Company's revolving credit facility by approximately $250 million and commercial paper facility by approximately $177 million (see Note 9). The reduction of the revolver and commercial paper facilities will occur as the various instruments mature during the month of March 2000.

The impact of the issuance of the additional shares of common stock and the reduction of debt on earnings before extraordinary gain and related earnings per share, had the transaction occurred on January 1, 1999, is presented in the following condensed consolidated pro forma information for the year ended December 31, 1999 (unaudited, in thousands, except per-share data):

	As Presented	Pro Forma Adjustments	Pro Forma
Earnings before extraordinary gain:			
Basic	$78,823	$18,296[1]	$ 97,119
Diluted	$89,584	$18,296[1]	$107,880
Weighted-average common shares outstanding:			
Basic	409,969	113,684[2]	523,653
Diluted	514,798	113,684[2]	628,482
Earnings per common share before extraordinary gain:			
Basic	$ .19		$ .19
Diluted	$ .17		$ .17

(1) Represents interest on retired bank term loan and reduced revolving credit and commercial paper facilities net of tax.

(2) Represent additional common shares issued in private placement.

In addition to the private placement, the Company announced that it will submit a proposed reverse stock split to its shareholders. The proposed reverse stock split is estimated to be one share of common for six shares of common. As a result of the anticipated reverse stock split, the total shares outstanding as of December 31, 1999, after giving effect to the shares issued in the private placement, would have been 87,280,527.

The impact of the reverse stock split on earnings per common share before extraordinary gain, after giving effect to the private placement, is presented in the following condensed consolidated pro forma information for the year ended December 31, 1999 (unaudited, in thousands, except per-share data):

	Pro Forma
Earnings before extraordinary gain:	
Basic	$ 97,119[1]
Diluted	$107,880[1]
Weighted-average common shares outstanding:	
Basic	87,276[2]
Diluted	104,747[2]
Earnings per common share before extraordinary gain:	
Basic	$ 1.11
Diluted	$ 1.03

(1) Pro forma earnings before extraordinary gain after giving effect to the private placement.

(2) Pro forma weighted-average shares outstanding after giving effect to the private placement and the proposed reverse stock split.

The pro forma results are not necessarily indicative of what would have occurred if the private placement and reverse stock split had been made at the beginning of the period presented. In addition, they are not intended to be a projection of future results.

3. Accounts Receivable

(Dollars in Thousands)	December 31 1999	1998
Trade accounts receivable	$ 84,770	$ 59,985
Franchisee accounts receivable	71,756	74,176
Environmental cost reimbursements – see Note 14	11,981	9,798
SEJ royalty receivable	4,522	4,230
Other accounts receivable	12,254	8,624
	185,283	156,813
Allowance for doubtful accounts	(6,244)	(8,767)
	$179,039	$148,046

4. Inventories

(Dollars in Thousands)	December 31 1999	1998
Merchandise	$ 86,976	$ 74,835
Gasoline	47,074	26,210
	$134,050	$101,045

Inventories stated on the LIFO basis that are included in inventories in the accompanying Consolidated Balance Sheets were $60,505 and $50,242 for merchandise and $40,466 and $21,070 for gasoline at December 31, 1999 and 1998, respectively. These amounts are less than replacement cost by $37,203 and $33,804 for merchandise and $7,124 and $600 for gasoline at December 31, 1999 and 1998, respectively.

5. Other Current Assets

(Dollars in Thousands)	December 31 1999	1998
Prepaid expenses	$ 29,134	$ 26,670
Deferred tax assets – see Note 16	50,287	61,260
Restricted cash	–	22,810
Advances for lottery and other tickets	27,789	22,247
Reimbursable equipment purchases under the master lease facility – see Note 13	–	22,892
Other	8,118	6,752
	$115,328	$162,631

6. Property and Equipment

(Dollars in Thousands)	December 31 1999	1998
Cost:		
Land	$ 495,598	$ 493,369
Buildings	419,288	389,751
Leaseholds	1,172,791	1,047,791
Equipment	1,113,561	953,001
Software	186,315	131,693
Construction in process	90,951	102,524
	3,478,504	3,118,129
Accumulated depreciation and amortization (includes $47,415 and $29,886 related to software)	(1,597,984)	(1,465,197)
	$ 1,880,520	$ 1,652,932

7. Other Assets

(Dollars in Thousands)	December 31 1999	1998
SEJ license royalty intangible (net of accumulated amortization of $197,049 and $181,034)	$121,451	$137,466
Other license royalty intangibles (net of accumulated amortization of $35,095 and $32,259)	21,509	24,345
Environmental cost reimbursements – see Note 14	45,046	42,012
Goodwill (net of accumulated amortization of $1,159 and $449)	28,137	30,671
Investments in available-for-sale domestic securities (no cost basis)	18,313	27,011
Other	65,414	62,805
	$299,870	$324,310

8. Accrued Expenses and Other Liabilities

(Dollars in Thousands)	December 31 1999	1998
Insurance	$ 31,773	$ 54,059
Compensation	63,188	47,216
Taxes	55,577	51,807
Lotto, lottery and other tickets	40,756	37,446
Other accounts payable	26,132	33,320
Environmental costs – see Note 14	20,019	22,364
Profit sharing – see Note 12	16,491	16,490
Interest	6,243	20,432
Book overdrafts payable – see Note 1	55,635	60,235
Other current liabilities	85,402	79,264
	$401,216	$422,633

The Company continues to review the functions necessary to enable its stores to respond faster, more creatively and more cost efficiently to rapidly changing customer needs and preferences. To accomplish this goal, the Company continues to realign and reduce personnel. For the year ended December 31, 1998, the Company accrued $7,643 for severance benefits for the reduction in force of approximately 120 management and administrative employees. There have been no significant changes to the initial accrual, and the unpaid balance of $2,936 is included in accrued expenses and other liabilities as of December 31, 1999. In addition, the Company accrued termination benefits of $4,654 in December 1999

for approximately 40 employees The cost of the termination benefits in 1999 and 1998 was recorded in OSG&A expense.

9. Debt

(Dollars in Thousands)	December 31 1999	1998
Bank Debt Term Loans	$ 112,500	$ 168,750
Bank Debt revolving credit facility	250,000	295,000
Commercial paper	600,000	350,000
5% First Priority Senior Subordinated Debentures due 2003	287,152	317,866
4½% Second Priority Senior Subordinated Debentures (Series A) due 2004	133,948	144,472
4% Second Priority Senior Subordinated Debentures (Series B) due 2004	21,849	22,590
Yen Loans	177,223	223,751
7½% Cityplace Term Loan due 2005	267,448	272,883
Capital lease obligations	156,933	137,152
Other	3,179	8,133
	2,010,232	1,940,597
Less long-term debt due within one year	207,413	151,754
	$1,802,819	$1,788,843

Bank Debt – The Company is obligated to a group of lenders under an unsecured credit agreement ("Credit Agreement") that includes a $225 million term loan and a $400 million revolving credit facility. A sublimit of $150 million for letters of credit is included in the revolving credit facility. In addition, to the extent outstanding letters of credit are less than the $150 million maximum, the excess availability can be used for additional borrowings under the revolving credit facility.

Payments on the term loan, which matures on December 31, 2001, commenced in March 1998, when the first installment of 16 quarterly installments of $14,063 was paid. Upon expiration of the revolving credit facility in February 2002, all the then-outstanding letters of credit must expire and may need to be replaced, and all other amounts then outstanding will be due and payable in full. At December 31, 1999, outstanding letters of credit under the facility totaled $70,152.

Interest on the term loan and borrowings under the revolving credit facility is generally payable quarterly and is based on a variable rate equal to the administrative agent bank's base rate or, at the Company's option, at a rate equal to a reserve-adjusted Eurodollar rate plus .475% per year. A fee of .325% per year on the outstanding amount of letters of credit is required to be paid quarterly. In addition, a facility fee of .15% per year is charged on the aggregate amount of the credit agreement facility and is payable quarterly. The weighted-average interest rate on the term loan outstanding at December 31, 1999 and 1998, respectively, was 6.6% and 5.6%. The weighted-average interest rate on the revolving credit facility borrowings outstanding at December 31, 1999 and 1998, respectively, was 6.8% and 5.6%.

The Credit Agreement contains various financial and operating covenants which require, among other things, the maintenance of certain financial ratios including interest and rent coverage, fixed-charge coverage and senior indebtedness to earnings before interest, income taxes, depreciation and amortization. The Credit Agreement also contains various covenants which, among other things, (a) limit the Company's ability to incur or guarantee indebtedness or other liabilities other than under the Credit Agreement, (b) restrict the Company's ability to engage in asset sales and sale/leaseback transactions, (c) restrict the types of investments the Company can make and (d) restrict the Company's ability to pay cash dividends, redeem or prepay principal and interest on any subordinated debt and certain senior debt.

Commercial Paper – Effective January 1999, the availability of borrowings under the Company's commercial paper facility was increased from $400 million to $650 million. At December 31, 1999 and 1998, $600 million and $350 million of the respective $634,418 and $368,348 outstanding principal amounts, net of discount, was classified as long-term debt since the Company intends to maintain at least these amounts outstanding during the next year. Such debt is unsecured and is fully and unconditionally guaranteed by IY. IY has agreed to continue its guarantee of all commercial paper issued

through 2001. While it is not anticipated that IY would be required to perform under its commercial paper guarantee, in the event IY makes any payments under the guarantee, the Company and IY have entered into an agreement by which the Company is required to reimburse IY subject to restrictions in the Credit Agreement. The weighted-average interest rate on commercial paper borrowings outstanding at December 31, 1999 and 1998, respectively, was 6.1% and 5.2%.

Debentures – The Debentures are accounted for in accordance with SFAS No. 15, "Accounting by Debtors and Creditors for Troubled Debt Restructuring," and were recorded at an amount equal to the future undiscounted cash payments, both principal and interest ("SFAS No. 15 Interest"). Accordingly, no interest expense will be recognized over the life of these securities, and cash interest payments will be charged against the recorded amount of such securities. Interest on all of the Debentures is payable in cash semiannually on June 15 and December 15 of each year.

The 5% First Priority Senior Subordinated Debentures, due December 15, 2003 ("5% Debentures"), had an outstanding principal balance of $239,293 at December 31, 1999, and are redeemable at any time at the Company's option at 100% of the principal amount.

The Second Priority Senior Subordinated Debentures were issued in three series, and each series is redeemable at any time at the Company's option at 100% of the principal amount and are described as follows:

- 4½% Series A Debentures, due June 15, 2004 ("4½% Debentures"), had an outstanding principal balance of $111,391 at December 31, 1999.
- 4% Series B Debentures, due June 15, 2004 ("4% Debentures"), had an outstanding principal balance of $18,516 at December 31, 1999.
- 12% Series C Debentures, due June 15, 2009 ("12% Debentures"), were redeemed by the Company in March 1998 with a portion of the proceeds from the issuance of $80 million principal amount of Convertible Quarterly Income Debt Securities due 2013 ("1998 QUIDS") to IY and SEJ (see Note 10). The 12% Debentures had an outstanding principal balance of $21,787 when they were redeemed.

The Company also utilized a portion of the proceeds from the 1998 QUIDS to purchase $15,700 principal amount of its 5% Debentures, $7,845 principal amount of its 4½% Debentures and $250 principal amount of its 4% Debentures during the fourth quarter of 1998. The partial purchases of these debentures, together with the redemption of the 12% Debentures, resulted in an extraordinary gain of $23,324 (net of current tax effect of $14,912) as a result of the discounted purchase price and the inclusion of SFAS No. 15 Interest in the carrying amount of the debt.

In addition, the Company purchased $15,000 principal amount of its 5% Debentures in January 1999 and $4,418 principal amount of its 4½% Debentures in February 1999 with a portion of the proceeds of the 1998 QUIDS. These partial purchases resulted in an extraordinary gain of $4,290 (net of current tax effect of $2,743) in 1999 as a result of the discounted purchase price and the inclusion of SFAS No. 15 Interest in the carrying amount of the debt.

Prior to the partial purchases, the 5% Debentures were subject to a sinking fund payment of $8,696 due in December 2002. The Company used its purchase of the 5% Debentures to satisfy all sinking fund requirements so that no sinking fund payments remain.

The Debentures contain certain covenants that, among other things, (a) limit the payment of dividends and certain other restricted payments by both the Company and its subsidiaries, (b) require the purchase by the Company of the Debentures at the option of the holder upon a change of control, (c) limit additional indebtedness, (d) limit future exchange offers, (e) limit the repayment of subordinated indebtedness, (f) require board approval of certain asset sales, (g) limit transactions with certain stockholders and affiliates and (h) limit consolidations, mergers and the conveyance of all or substantially all of the Company's assets.

The First and Second Priority Senior Subordinated Debentures are subordinate to the borrowings outstanding under the Credit Agreement and to previously outstanding mortgages and notes that are either backed by specific collateral or are general unsecured, unsubordinated obligations. The Second Priority Debentures are subordinate to the First Priority Debentures.

Yen Loans – In March 1988, the Company monetized its future royalty payments from SEJ, its area licensee in Japan, through a loan that is nonrecourse to the Company as to principal and interest ("1988 Yen Loan"). The original amount of the yen-denominated debt was 41 billion yen (approximately $327 million at the exchange rate in March 1988) and is collateralized by the Japanese trademarks and a pledge of the future royalty payments. By designating its future royalty receipts during the term of the loan to service the monthly interest and principal payments, the Company has hedged the impact of future exchange rate fluctuations. As a result of the hedge with the SEJ royalty, the 1988 Yen Loan and related interest are converted at 125.35 yen to one U.S. dollar. Payment of the debt is required no later than March 2006 through future royalties from SEJ. The Company believes it is a remote possibility that there will be any principal balance remaining at that date because current royalty projections suggest the 1988 Yen Loan could be repaid as early as 2001. One year following the final repayment of the 1988 Yen Loan, royalty payments from SEJ will be reduced by approximately two-thirds in accordance with the terms of the license agreement. The interest rate was 3.10% as of December 31, 1999.

In April 1998, funding occurred on an additional yen-denominated loan ("1998 Yen Loan") for 12.5 billion yen or $96.5 million of proceeds. The 1998 Yen Loan has an interest rate of 2.325% and will be repaid from the Seven-Eleven Japan area license royalty income after the 1988 Yen Loan has been retired, which is currently expected in 2001. Both principal and interest of the loan are nonrecourse to the Company. The Company utilized a short-term put option to lock-in the exchange rate and avoid the risk of foreign currency exchange loss. The put option was financed by selling a call option with the same yen amount and maturity as the put option. Due to market conditions, the call option was not exercised and, as a result, income of $1.6 million was recognized during 1998. Proceeds of the loan were designated for general corporate purposes. As a result of the hedge with the SEJ royalty, the 1998 Yen Loan and related interest are converted at 129.53 yen to one U.S. dollar.

Cityplace Debt – Cityplace Center East Corporation ("CCEC"), a subsidiary of the Company, constructed the headquarters tower, parking garages and related facilities of the Cityplace Center development and is currently obligated to The Sanwa Bank, Limited, New York Branch ("Sanwa"), which has a lien on the property financed. The debt with Sanwa has monthly payments of principal and interest based on a 25-year amortization at 7.5%, with the remaining principal due on March 1, 2005 (the "Cityplace Term Loan").

The Company is occupying part of the building as its corporate headquarters and the balance is leased to third parties. As additional consideration through the extended term of the debt, CCEC will pay to Sanwa an amount that it receives from the Company which is equal to the net sublease income that the Company receives on the property and 60% of the proceeds, less $275 million and permitted costs, upon a sale or refinancing of the building.

Maturities – Long-term debt maturities assume the continuance of the commercial paper program and the IY guarantee. The maturities, which include capital lease obligations as well as SFAS No. 15 Interest accounted for in the recorded amount of the Debentures, are as follows (dollars in thousands):

2000	$ 207,413
2001	132,545
2002	84,909
2003	288,859
2004	166,943
Thereafter	1,129,563
	$2,010,232

10. Convertible Quarterly Income Debt Securities

In November 1995, the Company issued $300 million principal amount of Convertible Quarterly Income Debt Securities due 2010 ("1995 QUIDS") to IY and SEJ. The 1995 QUIDS have an interest rate of 4.5% and give the Company the right to defer interest payments thereon for up to 20 consecutive quarters. The holder of the 1995 QUIDS can convert the debt anytime into a maximum of 72,111,917 shares of the Company's common stock. The conversion rate represents a premium to the market value of the Company's common stock at the time of issuance of the 1995 QUIDS. As of December 31, 1999, no shares had been issued as a result of debt conversion.

In February 1998, the Company issued $80 million principal amount of 1998 QUIDS, which have a 15-year life, no amortization and an interest rate of 4.5%. The instrument gives the Company the right to defer interest payments thereon for up to 20 consecutive quarters. The debt mandatorily converts into 32,508,432 shares of the Company's common stock if the Company's stock trades above $2.46 for 20 of 30 consecutive trading days after the fifth anniversary of issuance. In addition, the debt mandatorily converts into 27,090,359 shares of the Company's common stock if the Company's stock trades above $2.95 for 20 of 30 consecutive trading days after the third anniversary of issuance and before the fifth anniversary. A portion of the proceeds from the 1998 QUIDS was used to redeem the Company's 12% Debentures at par and to fund the partial purchases of its other Debentures (see Note 9). The 1998 QUIDS, together with the 1995 QUIDS (collectively, "Convertible Debt"), are subordinate to all existing debt.

The financial statements include interest payable of $723 as of December 31, 1999 and 1998, and interest expense of $17,384, $16,801 and $13,733 for the years ended December 31, 1999, 1998 and 1997, respectively, related to the Convertible Debt. The Company has not deferred any interest payments in connection with the Convertible Debt.

11. Financial Instruments

Fair Value – The disclosure of the estimated fair value of financial instruments has been determined by the Company using available market information and appropriate valuation methodologies as indicated below.

The carrying amounts of cash and cash equivalents, trade accounts receivable, trade accounts payable and accrued expenses and other liabilities are reasonable estimates of their fair values. Letters of credit are included in the estimated fair value of accrued expenses and other liabilities.

The carrying amounts and estimated fair values of other financial instruments at December 31, 1999, are listed in the following table:

(Dollars In Thousands)	Carrying Amount	Estimated Fair Value
Bank Debt	$362,500	$362,500
Commercial Paper	634,418	634,418
Debentures	442,949	308,810
Yen Loans	177,223	223,753
Cityplace Term Loan	267,448	254,908
Convertible Debt	380,000	305,561
Interest Rate Swap	2,399	(6,768)

The methods and assumptions used in estimating the fair value for each of the classes of financial instruments presented in the table above are as follows:

- The carrying amount of the Bank Debt approximates fair value because the interest rates are variable.
- Commercial paper borrowings are sold at market interest rates and have an average remaining maturity of less than 49 days. Therefore, the carrying amount of commercial paper is a reasonable estimate of its fair value. The guarantee of the commercial paper by IY is an integral part of the estimated fair value of the commercial paper borrowings.
- The fair value of the Debentures is estimated based on December 31, 1999, bid prices obtained from investment banking firms where traders regularly make a market for these financial instruments. The carrying amount of the Debentures includes $73,749 of SFAS No. 15 Interest.

- The fair value of the Yen Loans is estimated by calculating the present value of the future yen cash flows at current interest and exchange rates.
- The fair value of the Cityplace Term Loan is estimated by calculating the present value of the future cash flows at a current interest rate for a similar financial instrument.
- The fair value of the Convertible Debt (see Note 10) at December 31, 1999, is based on the sum of the fair values assigned to both an interest rate and an equity component of the debt by a valuation firm. The interest rate component is based on the ten-year treasury rate plus the Company's subordinated borrowing spread. The equity component is based on the Company's stock price as of December 31, 1999, using a 35% volatility factor. Subsequent to December 31, 1999, the Company's stock price has increased substantially. This increase would result in the fair value of the Convertible Debt moving closer to its carrying value.
- The fair value of the Interest Rate Swap is estimated based on December 31, 1999, quoted market prices of the same or similar instruments and represents the estimated amount the Company would receive if the Company chose to terminate the swap as of December 31, 1999.

Derivatives – The Company uses derivative financial nstruments to reduce its exposure to market risk resulting from fluctuations in foreign exchange rates (see Note 9), gasoline prices and interest rates. In June 1998, the Company entered into an interest rate swap agreement that fixed the interest rate at 5.395% on $250 million notional principal amount of floating rate debt until June 2003. This agreement was amended in February 1999, and the Company will pay a fixed interest rate of 6.096% on the floating rate debt until February 2004. A major financial nstitution, as counterparty to the agreement, will pay the Company a floating interest rate based on three-month LIBOR during the term of the agreement in exchange for the Company paying the fixed interest rate. Interest payments related to the original agreement commenced in September 1998, and interest payments related to the amended agreement commenced in May 1999. Interest payments are made quarterly by both parties. Except for the option component discussed below, the swap is accounted for as a hedge and, accordingly, any difference between amounts paid and received under the swap are recorded as interest expense. The impact on net interest expense as a result of this agreement was nominally favorable for the years ended December 31, 1999 and 1998, and the Company does not anticipate a material impact on its earnings as a result of the amended agreement. The Company is at risk of loss from this swap agreement in the event of nonperformance by the counterparty.

Upon expiration of the initial swap term, the original agreement was extendible for an additional five years at the option of the counterparty. This extendible option component of the original agreement was unwound by the amended agreement. The option component was recognized at fair value and marked to market as of December 31, 1998, and also at the time of unwinding. Due to declining interest rates throughout the third and fourth quarters of 1998, the Company recognized $3,677 of expense related to the option component in 1998. However, with respect to its unhedged floating rate debt, the Company experienced a positive economic benefit from the declining interest rates during the same period. In the first quarter of 1999, the Company recognized income of $1,505 as a result of the mark-to-market adjustment of the option component through the date of the unwinding.

The Company is currently reviewing SFAS No. 133, "Accounting for Derivative Instruments and Hedging Activities." The statement establishes accounting and reporting standards for derivative instruments, including certain derivative instruments embedded in other contracts, and for hedging activities. SFAS No. 133 becomes effective for all fiscal quarters of fiscal years beginning after June 15, 2000, and earlier application is permitted as of the beginning of any fiscal quarter subsequent to June 15, 2000. The Company intends to adopt the provisions of this statement as of January 1, 2001. The impact of the adoption of SFAS No. 133 has not

been determined at this time due to the Company's continuing investigation of its financial instruments and the applicability of SFAS No. 133 to them.

12. Benefit Plans

Profit Sharing Plans – The Company maintains the 7-Eleven, Inc. Employees' Savings and Profit Sharing Plan (the "Savings and Profit Sharing Plan") for its U.S. employees and the 7-Eleven Canada, Inc. Pension Plan for its Canadian employees. These plans provide retirement benefits to eligible employees.

Contributions to the Savings and Profit Sharing Plan, a 401(k) defined contribution plan, are made by both the participants and 7-Eleven. 7-Eleven contributes the greater of approximately 10% of its net earnings minus the amount contributed to the 7-Eleven, Inc. Supplemental Executive Retirement Plan for Eligible Employees (the "Supplemental Executive Retirement Plan") or an amount determined by the Company. Net earnings are calculated without regard to the contribution to the Savings and Profit Sharing Plan, federal income taxes, gains from debt repurchases and refinancings and, at the discretion of the chief executive officer of the Company, income from accounting changes. The contribution by the Company is generally allocated to the participants on the basis of their individual contribution and years of participation in the Savings and Profit Sharing Plan. The provisions of the 7-Eleven Canada, Inc. Pension Plan are similar to those of the Savings and Profit Sharing Plan. Total contributions to these plans for the years ended December 31, 1999, 1998 and 1997 were $13,616, $13,403 and $12,977, respectively, and are included in OSG&A.

Supplemental Executive Retirement Plan – Effective January 1998, the Company established the Supplemental Executive Retirement Plan, which is an unfunded employee benefit plan maintained primarily to allow compensation to be deferred by highly compensated employees as defined by the Internal Revenue Service. Benefits under this plan constitute general obligations of the Company, subject to the claims of general creditors of the Company, and participants have no security or other interest in such funds.

Contributions to the Supplemental Executive Retirement Plan are made by the participant and may be made by the Company. A participant may elect to defer a maximum of 12 percent of eligible compensation. The Company may make a matching contribution, if so authorized each plan year, up to a maximum of six percent of the participant's eligible compensation minus the amount of the participant's deferral to the Savings and Profit Sharing Plan. Matching contributions, if any, will be credited to the participant's account at the same rate that 7-Eleven matches under the Savings and Profit Sharing Plan, but using years of service with the Company, minus one, rather than years of participation in the Savings and Profit Sharing Plan to determine a participant's group. There were no Company contributions to this plan for the years ended December 31, 1999 and 1998.

Postretirement Benefits – The Company's group insurance plan (the "Insurance Plan") provides postretirement medical and dental benefits for all retirees that meet certain criteria. Such criteria include continuous participation in the Insurance Plan ranging from 10 to 15 years depending on hire date, and the sum of age plus years of continuous service equal to at least 70. The Company contributes toward the cost of the Insurance Plan a fixed dollar amount per retiree based on age and number of dependents covered, as adjusted for actual claims experience. All other future costs and cost increases will be paid by the retirees. The Company continues to fund its cost on a cash basis; therefore, no plan assets have been accumulated.

The following information on the Company's Insurance Plan is provided:

Dollars in Thousands)	December 31 1999	1998
Change in Benefit Obligation		
Net benefit obligation at beginning of year	$ 22,914	$ 21,238
Service cost	658	536
Interest cost	1,541	1,523
Plan participants' contributions	2,479	2,953
Actuarial (gain) loss	(3,020)	894
Gross benefits paid	(4,742)	(4,230)
Net benefit obligation at end of year	$ 19,830	$ 22,914
Change in Plan Assets		
Fair value of plan assets at beginning of year	$ –	$ –
Employer contributions	2,263	1,277
Plan participants' contributions	2,479	2,953
Gross benefits paid	(4,742)	(4,230)
Fair value of plan assets at end of year	$ –	$ –
Funded status at end of year	$(19,830)	$(22,914)
Unrecognized net actuarial (gain) loss	(8,892)	(6,270)
Accrued benefit costs	$(28,722)	$(29,184)

Dollars in Thousands)	Years Ended December 31 1999	1998	1997
Components of Net Periodic Benefit Cost			
Service cost	$ 658	$ 536	$ 521
Interest cost	1,541	1,523	1,535
Amortization of actuarial (gain) loss	(398)	(560)	(603)
Net periodic benefit cost	$1,801	$1,499	$1,453
Weighted-Average Assumptions Used			
Discount rate	7.75%	6.75%	7.25%
Health care cost trend on covered charges:			
1998 trend	N/A	N/A	9.00%
1999 trend	N/A	8.00%	8.00%
2000 trend	7.00%	7.00%	7.00%
Ultimate trend	6.00%	6.00%	6.00%
Ultimate trend reached in	2001	2001	2001

There is no effect of a one percentage point increase or decrease in assumed health care cost trend rates on either the total service and interest cost components or the postretirement benefit obligation for the years ended December 31, 1999, 1998 and 1997 as the Company contributes a fixed dollar amount.

Stock Incentive Plan – The 1995 Stock Incentive Plan (the "Stock Incentive Plan") provides for the granting of stock options, stock appreciation rights, performance shares, restricted stock, restricted stock units, bonus stock and other forms of stock-based awards and authorizes the issuance of up to 41 million shares over a ten-year period to certain key employees and officers of the Company. All options granted in 1999, 1998 and 1997 were granted at an exercise price that was equal to the fair market value on the date of grant. The options granted vest in five equal installments beginning one year after grant date with possible acceleration thereafter based upon certain improvements in the price of the Company's common stock. Vested options are exercisable within ten years of the date granted.

The fair value of each option grant is estimated on the date of grant using the Black-Scholes option-pricing model with the following weighted-average assumptions used for the options granted: for each year presented, expected life of five years and no dividend yields, combined with risk-free interest rates of 6.19%, 4.50% and 5.81% in 1999, 1998 and 1997, respectively, and expected volatility of 62.95%, 61.76% and 51.37% in 1999, 1998 and 1997, respectively.

Notes To Consolidated Financial Statements

A summary of the status of the Stock Incentive Plan as of December 31, 1999, 1998 and 1997, and changes during the years ending on those dates, is presented below:

Fixed Options	1999 Shares (000's)	1999 Weighted-Average Exercise Price	1998 Shares (000's)	1998 Weighted-Average Exercise Price	1997 Shares (000's)	1997 Weighted-Average Exercise Price
Outstanding at beginning of year	13,428	$2.6448	10,500	$2.8903	7,618	$3.0895
Granted	3,863	1.8750	3,359	1.9063	3,390	2.4690
Exercised	–	–	–	–	–	–
Forfeited	(1,821)	2.8717	(431)	2.8693	(508)	3.0679
Outstanding at end of year	15,470	2.4259	13,428	2.6448	10,500	2.8903
Options exercisable at year-end	5,645	2.8422	4,044	3.0074	2,126	3.1231
Weighted-average fair value of options granted during the year	$1.1053		$1.0741		$1.2691	

Range of Exercise Prices	Options Outstanding: Options Outstanding at 12/31/99 (000's)	Options Outstanding: Weighted-Average Remaining Contractual Life	Options Outstanding: Weighted-Average Exercise Price	Options Exercisable: Options Exercisable at 12/31/99 (000's)	Options Exercisable: Weighted-Average Exercise Price
$1.8750	3,863	9.77	$1.8750	–	–
1.9063	3,296	8.79	1.9063	659	$1.9063
2.4690	2,706	7.87	2.4690	1,083	2.4690
3.0000	2,906	6.75	3.0000	1,743	3.0000
3.1875	2,699	5.81	3.1875	2,160	3.1875
1.8750 - 3.1875	15,470	7.97	2.4259	5,645	2.8422

The Company is accounting for the Stock Incentive Plan under the provisions of APB No. 25 and, accordingly, no compensation cost has been recognized. If compensation cost had been determined based on the fair value at the grant date for awards under this plan consistent with the method prescribed by SFAS No. 123, the Company's net earnings and earnings per share for the years ended December 31, 1999, 1998 and 1997, would have been reduced to the pro forma amounts indicated in the table below:

(Dollars In Thousands, Except Per-Share Data)	1999	1998	1997
Net earnings:			
As reported	$83,113	$74,048	$70,042
Pro forma	80,819	72,017	68,542
Earnings per common share:			
As reported:			
Basic	$ .20	$ .18	$ .17
Diluted	.18	.17	.16
Pro forma:			
Basic	$ .20	$ .18	$ .17
Diluted	.18	.16	.16

13. Leases

Leases – Certain property and equipment used in the Company's business is leased. Generally, real estate leases are for primary terms from 14 to 20 years with options to renew for additional periods, and equipment leases are for terms from one to ten years. The leases do not contain restrictions that have a material effect on the Company's operations.

In August 1999, the Company entered into a leasing facility that will provide up to $100 million of off-balance-sheet financing to be used for the construction of new stores. A trust (the lessor), funded primarily by a group of senior lenders, will acquire land and undertake construction projects with the Company acting as the construction agent. During the construction period following the lease commencement date, interim rent will be added to the amount funded for land and construction. Rental payments begin immediately following the end of

the construction period Rental payments are based on interest incurred by the trust on amounts funded under the facility; such interest is based on LIBOR plus 2.075%. As of December 31, 1999, the trust had funded $28,310 from this facility. The lease has a maximum lease term of 66 months.

After the initial lease term has expired, the Company has the option of (1) extending the lease for an additional period subject to the approval of the trust, (2) purchasing the property for an amount approximating the trust's interest in the property, or (3) to vacate the property, arranging for the sale to a third party and pay the trust the net proceeds from the sale (such payment not to exceed the trust's interest in the property with any excess being returned to the Company). Payment of any deficiency of the sale proceeds from approximately 84% of aggregate cost is guaranteed by the Company. The lease, which is accounted for as an operating lease, contains financial and operating covenants similar to those under the Company's Credit Agreement (see Note 9).

In December 1999 and January 2000, the Company entered into sale-leaseback agreements whereby land, buildings and associated real and personal property improvements were sold and leased back by the Company. The Company received proceeds of $58,937 and $73,360 on the sale of 30 and 33 stores, respectively. The gains on the sale of the properties of approximately $10 million and $12 million, respectively, were deferred and will be recognized on a straight-line basis over the initial term of the leases.

Under the terms of the agreements, the Company will make rental payments over a sixteen-year lease term. At he expiration of the initial lease term, the Company will have the option of renewing the lease for up to six renewal terms of up to five years per renewal term at predetermined ncreases. The leases do not contain purchase options or guaranteed residual values, however, the Company does have the right of first refusal after the first five years of the initial lease term with respect to any offers to purchase the properties which the lessor receives. The leases are being accounted for as operating leases.

In April 1997, the Company obtained commitments from the same group of lenders that participated in the Credit Agreement (see Note 9) for up to $115 million of lease financing under a master lease facility to be used primarily for electronic point-of-sale equipment and software associated with the Company's retail information system. As of December 31, 1999, the Company had received all of the available funding under the lease facility. Lease payments are variable based on changes in LIBOR.

Individual leases under this master lease facility have initial terms that expire on June 30, 2000, at which time the Company has an option to cancel all leases under this facility by purchasing the equipment or arranging its sale to a third party. The Company also has the option to renew the leases semiannually until five years after the beginning of the individual leases. At each semiannual renewal date, the Company has the option to purchase the equipment and end the lease. Individual leases may be extended beyond five years through an extended rental agreement.

The composition of capital leases reflected as property and equipment in the Consolidated Balance Sheets is as follows:

(Dollars in Thousands)	December 31 1999	1998
Buildings	$164,487	$129,520
Equipment	6,843	6,755
Software	40,813	40,813
	212,143	177,088
Accumulated amortization	(77,503)	(69,989)
	$134,640	$107,099

The present value of future minimum lease payments for capital lease obligations is reflected in the Consolidated Balance Sheets as long-term debt. The amount representing imputed interest necessary to reduce net minimum lease payments to present value has been calculated generally at the Company's incremental borrowing rate at the inception of each lease.

Future minimum lease payments for years ending December 31 are as follows:

(Dollars In Thousands)	Capital Leases	Operating Leases
2000	$ 36,370	$153,345
2001	33,245	138,365
2002	27,636	121,217
2003	19,676	101,175
2004	19,126	75,488
Thereafter	127,124	357,350
Future minimum lease payments	263,177	$946,940
Estimated executory costs	(23)	
Amount representing imputed interest	(106,221)	
Present value of future minimum lease payments	$ 156,933	

Minimum noncancelable sublease rental income to be received in the future, which is not included above as an offset to future payments, totals $13,263 for capital leases and $12,780 for operating leases.

Rent expense on operating leases for the years ended December 31, 1999, 1998 and 1997 totaled $164,643, $143,539 and $136,516, respectively, including contingent rent expense of $11,541, $10,441 and $9,360, but reduced by sublease rent income of $4,936, $5,909 and $6,620. Contingent rent expense on capital leases for the years ended December 31, 1999, 1998 and 1997, was $1,539, $1,818 and $1,987, respectively. Contingent rent expense is generally based on sales levels or changes in the Consumer Price Index.

Leases with the Savings and Profit Sharing Plan – At December 31, 1999, the Savings and Profit Sharing Plan owned one store leased to the Company under a capital lease and 591 stores leased to the Company under operating leases at rentals which, in the opinion of management, approximated market rates at the date of lease. In addition, in 1999, 1998 and 1997, there were 28, 99 and 64 leases, respectively, that either expired or, as a result of properties that were sold by the Savings and Profit Sharing Plan to third parties, were canceled or assigned to the new owner. Also, four properties, five properties and one property, respectively, were sold to the Company by the Savings and Profit Sharing Plan in 1999, 1998 and 1997.

Included in the consolidated financial statements are the following amounts related to leases with the Savings and Profit Sharing Plan:

(Dollars in Thousands)	December 31 1999	1998
Buildings (net of accumulated amortization of $39 and $886)	$40	$281
Capital lease obligations (net of current portion of $44 and $56)	$34	$314

(Dollars In Thousands)	Years Ended December 31 1999	1998	1997
Rent expense under operating leases and amortization of capital lease assets	$18,166	$19,987	$23,961
Imputed interest expense on capital lease obligations	$ 5	$ 59	$ 159
Capital lease principal payments included in principal payments under long-term debt agreements	$ 3	$ 594	$ 1,183

14. Commitments and Contingencies

McLane Company, Inc. – The Company has a ten-year service agreement with McLane Company, Inc. ("McLane") under which McLane is making its distribution services available to 7-Eleven stores in the United States. The agreement expires in November 2002. Upon signing the service agreement, the Company received a $9,450 transitional payment that is being amortized to cost of goods sold over the life of the agreement. If the Company does not fulfill its obligation to

McLane during this time period, the Company must reimburse McLane on a pro-rata basis for a portion of the transitional payment. The Company has exceeded the minimum annual purchases each year and expects to exceed the minimum required purchase levels in future years.

Citgo Petroleum Corporation – The Company has a 20-year product purchase agreement with Citgo Petroleum Corporation ("Citgo") to buy specified quantities of gasoline at market prices. The agreement expires September 2006. The market prices are determined pursuant to a formula based on the prices posted by gasoline wholesalers in the various market areas where the Company purchases gasoline from Citgo. Minimum required annual purchases under this agreement are generally the lesser of 750 million gallons or 35% of gasoline purchased by the Company for retail sale. The Company has exceeded the minimum required annual purchases each year and expects to exceed the minimum required annual purchase levels in future years.

Environmental – In December 1988, the Company closed its chemical manufacturing facility in New Jersey. The Company is required to conduct environmental remediation at the facility, including groundwater monitoring and treatment for a projected 15-year period, which commenced in 1998. The Company has recorded undiscounted liabilities representing its best estimates of the remaining clean-up costs of $7,281 and $8,726 at December 31, 1999 and 1998, respectively. Of this amount, $4,382 and $6,462, respectively, are included in deferred credits and other liabilities and the remainder in accrued expenses and other liabilities for the respective years.

In 1991, the Company and the former owner of the facility entered into a settlement agreement pursuant to which the former owner agreed to pay a substantial portion of the clean-up costs. Based on the terms of the settlement agreement and the financial resources of the former owner, the Company has recorded receivable amounts of $4,259 and $5,098 at December 31, 1999 and 1998, respectively. Of this amount, $2,528 and $3,750, respectively, are included in other assets and the remainder is included in accounts receivable.

Additionally, the Company accrues for the anticipated future costs and the related probable state reimbursement amounts for remediation activities at its existing and previously operated gasoline store sites where releases of regulated substances have been detected. At December 31, 1999 and 1998, respectively, the Company's estimated undiscounted liability for these sites was $33,449 and $41,897, of which $16,329 and $21,797 are included in deferred credits and other liabilities and the remainder is included in accrued expenses and other liabilities. These estimates are based on the Company's prior experience with gasoline sites and its consideration of such factors as the age of the tanks, location of tank sites and experience with contractors who perform environmental assessment and remediation work. The Company anticipates that substantially all of the future remediation costs for detected releases at these sites as of December 31, 1999, will be incurred within the next four or five years.

Under state reimbursement programs, the Company is eligible to receive reimbursement for a portion of future remediation costs, as well as a portion of remediation costs previously paid. Accordingly, at December 31, 1999 and 1998, the Company has recorded net receivable amounts of $52,768 and $46,712 for the estimated probable state reimbursements, of which $42,518 and $38,262, respectively, are included in other assets and the remainder in accounts receivable. The net receivable amount was increased in 1999 by approximately $14 million as a result of legislative changes in California, which have expanded and extended that state's reimbursement program. In assessing the probability of state reimbursements, the Company takes into consideration each state's fund balance, revenue sources, existing claim backlog, status of clean-up activity and claim ranking systems. As a result of these assessments, the recorded receivable amounts in other assets are net of allowances of $8,115 and $9,992 for 1999 and 1998, respectively.

While there is no assurance of the timing of the receipt of state reimbursement funds, based on the Company's experience, the Company expects to receive the majority of state reimbursement funds, except from California, within one to three years after payment of eligible remediation expenses, assuming that the state administrative procedures for processing such reimbursements have been fully developed. The Company estimates that it will receive reimbursement of most of its identified remediation expenses in California, although it may take one to ten years to receive those reimbursement funds. As a result of the timing in receiving reimbursement funds from the various states, the portion of the recorded receivable amounts related to remedial activities which have already been completed has been discounted at approximately 6.4% in 1999 and 4.6% in 1998 to reflect present values. Thus, the 1999 and 1998 recorded receivable amounts are net of present value discounts of $14,996 and $4,051, respectively.

The estimated future remediation expenditures and related state reimbursement amounts could change within the near future as governmental requirements and state reimbursement programs continue to be implemented or revised.

15. Preferred Stock and Stock Plans

Preferred Stock – The Company has 5 million shares of preferred stock authorized for issuance. Any preferred stock issued will have such rights, powers and preferences as determined by the Company's Board of Directors.

Stock Purchase Plans – Effective October 1999, the Company adopted noncompensatory stock purchase plans that allow qualified employees and franchisees to acquire shares of the Company's common stock at market value on the open market. The Company is responsible for the payment of all administrative fees for establishing and maintaining the stock purchase plans as well as the payment of all brokerage commissions for the purchase of shares by the plans' independent administrator.

Stock Compensation Plan for Non-Employee Directors – Effective October 1998, the Company established the Stock Compensation Plan for Non-Employee Directors under which up to an aggregate of 1,200,000 shares of the Company's common stock is authorized to be issued to its non-employee directors. Eligible directors may elect to receive all, none or a portion of their directors' fees in shares of the Company's common stock. During 1999, 76,018 shares were issued under the plan.

16. Income Taxes

The components of earnings before income taxes and extraordinary gain are as follows:

	Years Ended December 31		
(Dollars In Thousands)	1999	1998	1997
Domestic (including royalties of $72,947, $68,329 and $67,259 from area license agreements in foreign countries)	$115,588	$78,719	$109,982
Foreign	11,751	3,894	5,313
	$127,339	$82,613	$115,295

The provision for income taxes on earnings before extraordinary gain in the accompanying Consolidated Statements of Earnings consists of the following:

(Dollars in Thousands)	Years Ended December 31 1999	1998	1997
Current:			
Federal	$ 429	$ 1,146	$ 1,182
Foreign	13,361	10,753	11,559
State	2,250	800	700
Subtotal	16,040	12,699	13,441
Deferred	32,476	19,190	31,812
Income taxes on earnings before extraordinary gain	$48,516	$31,889	$45,253

Included in the accompanying Consolidated Statements of Shareholders' Equity (Deficit) at December 31, 1999, 1998 and 1997, respectively, are $7,128, $10,521 and $5,877 of income taxes provided on unrealized gains on marketable securities.

Reconciliations of income taxes on earnings before extraordinary gain at the federal statutory rate to the Company's actual income taxes provided are as follows:

(Dollars in Thousands)	Years Ended December 31 1999	1998	1997
Taxes at federal statutory rate	$44,569	$28,915	$40,353
State income taxes, net of federal income tax benefit	1,463	520	455
Foreign tax rate difference	728	263	2,095
Other	1,756	2,191	2,350
	$48,516	$31,889	$45,253

Significant components of the Company's deferred tax assets and liabilities are as follows: .

(Dollars in Thousands)	December 31 1999	1998
Deferred tax assets:		
Compensation and benefits	$ 33,962	$ 38,823
SFAS No. 15 Interest	29,747	43,983
Accrued insurance	29,237	25,483
Accrued liabilities	25,863	25,842
Tax credit carryforwards	5,722	11,515
Debt issuance costs	4,718	6,518
Other	6,178	6,075
Subtotal	135,427	158,239
Deferred tax liabilities:		
Property and equipment	(86,937)	(70,943)
Area license agreements	(55,754)	(63,106)
Other	(11,695)	(15,498)
Subtotal	(154,386)	(149,547)
Net deferred tax (liability) asset	$ (18,959)	$ 8,692

At December 31, 1999 and 1998, respectively, $69,246 and $52,568 of the Company's net deferred tax (liability) asset is recorded in deferred credits and other liabilities. The remaining balance is included in other current assets (see Note 5). At December 31, 1999, the Company had approximately $5,700 of alternative minimum tax credit carryforwards, which have no expiration date.

17. Earnings Per Common Share

Computations for basic and diluted earnings per share are presented below:

(In Thousands, Except Per-Share Data)	Years Ended December 31 1999	1998	1997
Basic:			
Earnings before extraordinary gain	$ 78,823	$ 50,724	$ 70,042
Earnings on extraordinary gain	4,290	23,324	–
Net earnings	$ 83,113	$ 74,048	$ 70,042
Weighted-average common shares outstanding	409,969	409,923	409,923
Earnings per common share before extraordinary gain	$ .19	$ .12	$ .17
Earnings per common share on extraordinary gain	.01	.06	–
Net earnings per common share	$ .20	$ .18	$ .17
Diluted:			
Earnings before extraordinary gain	$ 78,823	$ 50,724	$ 70,042
Add interest on convertible quarterly income debt securities, net of tax – see Note 10	10,761	10,316	8,343
Earnings before extraordinary gain plus assumed conversions	89,584	61,040	78,385
Earnings on extraordinary gain	4,290	23,324	–
Net earnings plus assumed conversions	$ 93,874	$ 84,364	$ 78,385
Weighted-average common shares outstanding (Basic)	409,969	409,923	409,923
Add effects of assumed conversions:			
Stock options – see Note 12	209	119	170
Convertible quarterly income debt securities – see Note 10	104,620	99,589	72,112
Weighted-average common shares outstanding plus shares from assumed conversions (Diluted)	514,798	509,631	482,205
Earnings per common share before extraordinary gain	$ .17	$ .12	$ .16
Earnings per common share on extraordinary gain	.01	.05	–
Net earnings per common share	$ .18	$ .17	$ .16

18. Acquisitions

In May 1998, the Company purchased 100% of the common stock of Christy's Market, Inc., a Massachusetts company that operated 135 convenience stores in the New England area. The Company also purchased the assets of 20 'red D mart' convenience stores in the South Bend, Indiana, area from MDK Corporation of Goshen, Indiana, at approximately the same time.

These acquisitions were accounted for under the purchase method of accounting and, accordingly, the results of operations of the acquired businesses have been included in the accompanying consolidated financial statements from their dates of acquisition. Pro forma information is not provided as the impact of the acquisitions does not have a material effect on the Company's results of operations, cash flows or financial position.

The following information is provided as supplemental cash flow disclosure for the acquisitions of businesses as reported in the Consolidated Statements of Cash Flows for the year ended December 31, 1998 (dollars in thousands):

Fair value of assets acquired	$75,479
Fair value of liabilities assumed	42,478
Cash paid	33,001
Less cash acquired	72
Net cash paid for acquisitions	$32,929

19 Quarterly Financial Data (Unaudited)

Summarized quarterly financial data for 1999 and 1998 is as follows:

	Year Ended December 31, 1999				
(Dollars in Millions, Except Per-Share Data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Merchandise sales	$1,362	$1,585	$1,695	$1,574	$6,216
Gasoline sales	408	504	548	576	2,036
Net sales	1,770	2,089	2,243	2,150	8,252
Merchandise gross profit	452	553	596	541	2,142
Gasoline gross profit	54	60	53	57	224
Gross profit	506	613	649	598	2,366
Income taxes	1	19	25	4	49
Earnings before extraordinary gain	2	29	38	10	79
Net earnings	6	29	38	10	83
Earnings per common share before extraordinary gain:					
Basic	.01	.07	.09	.03	.19
Diluted	.01	.06	.08	.03	.17

The first quarter includes an extraordinary gain of $4,290 resulting from the partial purchases of the 5% Debentures and the 4½% Debentures (see Note 9). The third and fourth quarters include income of approximately $10 million and $4 million, respectively, which resulted from environmental legislative changes in California (see Note 14). The fourth quarter includes a termination benefit accrual of $4,700 (see Note 8).

	Year Ended December 31, 1998				
(Dollars in Millions, Except Per-Share Data)	First Quarter	Second Quarter	Third Quarter	Fourth Quarter	Year
Merchandise sales	$1,204	$1,421	$1,556	$1,393	$5,574
Gasoline sales	391	424	444	425	1,684
Net sales	1,595	1,845	2,000	1,818	7,258
Merchandise gross profit	411	502	546	469	1,928
Gasoline gross profit	43	44	59	62	208
Gross profit	454	546	605	531	2,136
Income taxes (benefit)	(7)	16	22	1	32
Earnings (loss) before extraordinary gain	(12)	26	36	1	51
Net earnings	6	26	36	6	74
Earnings (loss) per common share before extraordinary gain:					
Basic	(.03)	.06	.09	.01	.12
Diluted	(.03)	.06	.07	.01	.12

The first and fourth quarters include extraordinary gains of $17,871 and $5,453, respectively, resulting from the redemption of the 12% Debentures and the partial purchases of the 5% Debentures, the 4½% Debentures and the 4% Debentures (see Note 9). The first quarter includes an expense of $11,839 resulting from a computer equipment lease termination and an accrual of $7,104 for severance benefits and related costs.

Report of Independent Accountants

To The Board of Directors and Shareholders of 7-Eleven, Inc.

We have audited the accompanying consolidated balance sheets of 7-Eleven, Inc. and Subsidiaries as of December 31, 1999 and 1998, and the related consolidated statements of earnings, shareholders' equity (deficit) and cash flows for each of the three years in the period ended December 31, 1999. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the consolidated financial position of 7-Eleven, Inc. and Subsidiaries as of December 31, 1999 and 1998, and the consolidated results of their operations and their cash flows for each of the three years in the period ended December 31, 1999, in conformity with accounting principles generally accepted in the United States.

PricewaterhouseCoopers LLP

Dallas, Texas
February 3, 2000, except as to the information included in the fourth paragraph of Note 13, for which the date is March 2, 2000, and the information included in Note 2, for which the date is March 16, 2000.

Directors and Officers

Directors

Masatoshi Ito
Chairman of the Board;
Director, Honorary Chairman,
Ito-Yokado Group

Toshifumi Suzuki[1]
Vice Chairman of the Board;
President and Chief Executive Officer,
Ito-Yokado Co., Ltd.;
Chairman and Chief Executive Officer,
Seven-Eleven Japan Co., Ltd.

Clark J. Matthews, II
President and Chief Executive Officer;
Secretary,
7-Eleven, Inc.

James W. Keyes
Executive Vice President
and Chief Operating Officer,
7-Eleven, Inc.

Yoshitami Arai
Chairman of the Board,
Systems International Incorporated

Masaaki Asakura
Senior Vice President,
7-Eleven, Inc.

Timothy Ashida
President,
A.K.K. Associates, Inc.

Jay W. Chai[2]
Chairman of the Board and
Chief Executive Officer,
ITOCHU International Inc.

Gary J. Fernandes[1][2]
Chief Executive Officer
GroceryWorks.com

Masaaki Kamata
Director and
Vice Chairman,
Seven-Eleven Japan Co., Ltd.

Kazuo Otsuka[1]
General Manager,
Corporate Development,
Ito-Yokado Co., Ltd.

Asher O. Pacholder[2]
Chairman of the Board
and Chief Financial Officer,
ICO, Inc.

Nobutake Sato
Director and
Executive Vice President,
Ito-Yokado Co., Ltd.

(1) Compensation and Benefits Committee
(2) Audit Committee

Officers

Masatoshi Ito
Chairman of the Board

Toshifumi Suzuki
Vice Chairman of the Board

Clark J. Matthews, II*
President and
Chief Executive Officer;
Secretary

James W. Keyes
Executive Vice President
and Chief Operating Officer

Masaaki Asakura
Senior Vice President

Rodney A. Brehm
Senior Vice President,
Store Operations

Joseph F. Gomes**
Senior Vice President,
Logistics

Gary R. Rose
Senior Vice President,
Merchandising

Bryan F. Smith, Jr.
Senior Vice President and
General Counsel

Frank Crivello
Vice President,
Northeast Division

Cynthia Davis
Vice President,
Central Division

Krista Fuller***
Vice President,
Development

Jeff Hamill
Vice President,
Southwest Division

John W. Harris
Vice President,
Florida Division

David Huey
Vice President,
North Pacific Division

Gary Lockhart
Vice President,
Gasoline Supply

David M. Podeschi
Vice President,
Foods/Non-Foods Merchandising

Sharon Powell
Vice President,
Fresh Foods

Jeffrey A. Schenck
Vice President,
Great Lakes Division

Ezra Shashoua
Treasurer

Nancy A. Smith
Vice President,
Marketing and Communication

Linda Svehlak
Vice President,
Information Systems

Donald E. Thomas
Vice President and Controller

Rick Updyke
Vice President,
Planning

*Retiring April 30, 2000
**Retired January 31, 2000
***Through January 15, 2000

Corporate Information

Corporate Headquarters

7-Eleven, Inc.
2711 North Haskell Ave.
Dallas, TX 75204-2906
(214) 828-7011

Mailing Address:
P.O. Box 711
Dallas, TX 75221-0711

Web Address: www.7-Eleven.com
e-mail: invest@7-11.com

Form 10-K and Other Investor Information

Requests for the Form 10-K for the year ended December 31, 1999, and quarterly financial information should be addressed to the Investor Relations Department at the above address, or telephone (214) 828-7587.

Annual reports are mailed to all shareholders of record. Additional information is available upon request or on the 7-Eleven website.

A recorded Company update can be reached and requests for information can be left 24 hours a day by calling (214) 828-7587.

Annual Meeting

The annual meeting will be held at 9:30 a.m. CDT on Wednesday, April 26, 2000, in the Cityplace Conference Center at the Company's headquarters. All shareholders and bondholders are cordially invited to attend.

Auditors

PricewaterhouseCoopers LLP
Dallas, Texas

Common Stock

7-Eleven's common stock is traded on The Nasdaq Stock Market under the symbol SVEV. There were 3,999 shareholders of record as of March 3, 2000.

The Company pays no dividends on its common equity as such payments are restricted by the indentures governing its outstanding securities and by 7-Eleven's Credit Agreement with its senior lenders.

The table below sets forth the high, low and closing market prices for the periods indicated as provided by Nasdaq.

Price Range:

Quarters	High	Low	Close
1999			
First	\$2 9/16	\$1 19/32	\$2 1/32
Second	2 3/4	1 13/16	2 7/32
Third	2 7/32	1 7/8	1 31/32
Fourth	2 1/8	1 19/32	1 25/32
1998			
First	\$3 1/32	\$1 9/16	\$2 5/64
Second	3 1/32	2 1/16	2 3/4
Third	3 1/32	2 1/16	2 1/2
Fourth	2 3/8	1 3/4	1 29/32

Common Stock Transfer Agent/Registrar

Harris Trust and Savings Bank
Attn: Shareholder Services
311 West Monroe Street
Chicago, IL 60606
(312) 360-5464
(800) 926-1269

Other Securities

The following other 7-Eleven securities are traded over the counter, and price information is available by calling the company's recorded message at (214) 828-7587:

5% First Priority Senior Subordinated Debentures

Trustee: Chase Manhattan Trust, N.A.
Chase Financial Tower
250 W. Huron Road, Suite 220
Cleveland, Ohio 44113

4½% Second Priority Senior Subordinated Debentures (Series A)

4% Second Priority Senior Subordinated Debentures (Series B)

Trustee: The Bank of New York
101 Barclay Street, Floor 21 West
New York, NY 10286

7-Eleven Around the World

United States:	
Franchised	3,008
Company-operated	2,215

Canada:	
Company-operated	480
	5,703

Licensed or Operated by Affiliates:	
Australia	193
China	50
Denmark	30
Guam	9
Hong Kong	380
Japan	8,027
Malaysia	144
Mexico	270
Norway	49
Philippines	154
Puerto Rico	14
Singapore	109
South Korea	252
Spain	20
Sweden	47
Taiwan	2,247
Thailand	1,324
Turkey	12
United States	444
Total	13,775

State/Province	Total
United States:	
Arizona	102
California	1,173
Colorado	235
Connecticut	50
Delaware	27
District of Columbia	18
Florida	496
Idaho	14
Illinois	150
Indiana	41
Kansas	15
Maine	24
Maryland	305
Massachusetts	103
Michigan	117
Missouri	83
Nevada	197
New Hampshire	20
New Jersey	208
New York	247
North Carolina	7
Ohio	15
Oregon	132
Pennsylvania	166
Rhode Island	11
Texas	288
Utah	112
Vermont	4
Virginia	608
Washington	217
West Virginia	23
Wisconsin	15
Canada:	
Alberta	133
British Columbia	145
Manitoba	49
Ontario	110
Saskatchewan	43
Total	5,703

All numbers as of December 31, 1999.

7-Eleven, Inc.

2711 North Haskell Avenue

Dallas, Texas 75204-2906

214.828.7011

www.7-Eleven.com